

ORDINANCE 122281

AN ORDINANCE relating to drainage services of Seattle Public Utilities; amending Seattle Municipal Code Section 21.33.030 to adjust drainage rates; and amending Seattle Municipal Code Section 21.76.040 to adjust credits to low-income drainage customers accordingly.

WHEREAS, the rates for drainage services were last increased on January 1, 2006, as authorized by Ordinance 121639; and

WHEREAS, Seattle Public Utilities ("SPU") has developed a Comprehensive Drainage Plan ("CDP") which recommends operating programs and capital projects to reduce flooding, improve water quality, improve drainage along major arterials, and restore creek habitat affected by stormwater draining through creek systems; and

WHEREAS, the cost to implement CDP-recommended programs and projects in 2007 will result in increased annual expenses for debt service, cash financing of capital projects and operations; and

WHEREAS, a significant bond issuance occurred in 2006 to finance a portion of the drainage capital improvement projects and that this issuance will further increase annual drainage expenses for debt service beginning in 2007; and

WHEREAS, SPU has completed a rate study showing that existing rates will not provide sufficient revenues to pay the costs of providing drainage services and pay debt service and that rate increases therefore are required; and

WHEREAS, credits for qualified low-income customers need to be revised to reflect an increase in drainage rates; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Subsection D of Seattle Municipal Code Section 21.33.030 is amended as follows:

SMC 21.33.030 Drainage service charges -- Schedule -- Exemptions.

* * *



D. The rate categories and the corresponding annual drainage service charges are as follows:

| | ((Effective)) | ((Effective)) | Effective | <u>Effective</u> |
|---------------------------|---|---|---------------------|----------------------------|
| | ((Jan. 1, 2004)) | ((Jan. 1, 2005)) | Jan. 1, 2006 | <u>Jan. 1, 2007</u> |
| Single-family residential | ((<u>\$110.36 per parcel</u>)) | ((<u>\$121.64 per parcel</u>)) | \$136.10 per parcel | <u>\$142.00 per parcel</u> |
| Open space (0 -- 2%) | ((<u>111.33 per acre</u>)) | ((<u>139.88 per acre</u>)) | 173.77 per acre | <u>187.31 per acre</u> |

All Other Properties Classification:

| | | | | |
|-----------------|---|---|-------------------|--------------------------|
| 1. (0 -- 15%) | ((<u>\$194.54 per acre</u>)) | ((<u>\$243.48 per acre</u>)) | \$302.19 per acre | <u>\$325.49 per acre</u> |
| 2. (16 -- 35%) | ((<u>322.60 per acre</u>)) | ((<u>404.02 per acre</u>)) | 501.84 per acre | <u>539.49 per acre</u> |
| 3. (36 -- 65%) | ((<u>581.47 per acre</u>)) | ((<u>730.89 per acre</u>)) | 908.01 per acre | <u>978.87 per acre</u> |
| 4. (66 -- 85%) | ((<u>758.95 per acre</u>)) | ((<u>953.02 per acre</u>)) | 1,183.79 per acre | <u>1,275.27 per acre</u> |
| 5. (86 -- 100%) | ((<u>944.43 per acre</u>)) | ((<u>1,182.89 per acre</u>)) | 1,468.73 per acre | <u>1,584.92 per acre</u> |

SPU shall provide a 10% reduction in drainage rates for properties containing new or remodeled commercial buildings that, after July 27, 2003, install and utilize rainwater harvesting systems that meet the performance requirement that the systems are sized to use or infiltrate the amount of rain that falls on the roofs of such buildings during a one year, ((24-hour)) 24-hour storm event. A system that involves indoor uses of rainwater must be permitted by Seattle-King County Department of Health ~~((in-order))~~ to qualify for the rate reduction. A system that relies solely on the capture and indoor use of rainwater shall qualify for the drainage rate reduction only if the system is sized to meet the performance requirement stated above. Qualifying for the drainage rate reduction does not relieve the property owner from the obligation to comply with applicable stormwater and drainage code requirements for the buildings and site.

* * *

Section 2. Paragraph 2 of Subsection A of Seattle Municipal Code 21.76.040 is amended as follows:

21.76.040 Utility low income rate assistance.

* * *

2. Drainage. Eligible recipients residing inside the City of Seattle shall receive the following credits for drainage services based on dwelling type:

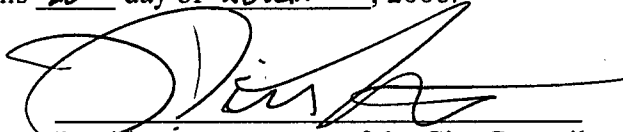
| | ((Effective)) | ((Effective)) | Effective | <u>Effective</u> |
|---------------|----------------------------------|----------------------------------|------------------|-------------------------|
| | ((January 1, 2004)) | ((January 1, 2005)) | January 1, 2006 | <u>January 1, 2007</u> |
| Single-family | (((\$4.60 per month)) | (((\$5.07 per month)) | \$5.67 per month | <u>\$5.92 per month</u> |
| Duplex | ((2.30 per month)) | ((2.54 per month)) | 2.84 per month | <u>2.96 per month</u> |
| Multifamily | ((0.49 per month)) | ((0.54 per month)) | 0.61 per month | <u>0.64 per month</u> |

* * *

Section 3. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, then such provision or provisions shall be null and severed from the rest of this ordinance with respect to the particular person or circumstance. The offending provision with respect to all other persons and all other circumstances, as well as all other provisions of this ordinance, shall remain valid and enforceable.

Section 4. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 20th day of November, 2006, and signed by me in open session in authentication of its passage this 20th day of November, 2006.



President _____ of the City Council

Approved by me this 22nd day of November, 2006.



Gregory J. Nickels, Mayor

Filed by me this 22nd day of November, 2006.



City Clerk

(Seal)

FISCAL NOTE FOR NON-CAPITAL PROJECTS

| Department: | Contact Person/Phone: | DOF Analyst/Phone: |
|--------------------------|------------------------------|---------------------------|
| Seattle Public Utilities | Leanne Galati 4-0455 | John McCoy 615-0768 |

Legislation Title:

AN ORDINANCE relating to drainage services of Seattle Public Utilities; amending Seattle Municipal Code Section 21.33.030 to adjust drainage rates; and amending Seattle Municipal Code Section 21.76.040 to adjust credits to low-income drainage customers.

• **Summary of the Legislation:**

This ordinance adopts drainage rates for commercial and residential customers in 2007. It also adjusts the low-income assistance credits for drainage customers.

- **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

Drainage rates were last raised on January 1, 2006. The cost of drainage services is supported by rates charged to drainage customers. These rates are set in accordance with financial policies adopted by the City Council. Development of new drainage infrastructure over the past year has increased the costs of drainage utility services. Planned infrastructure investment and new operating programs to be implemented during the next year under the Comprehensive Drainage Plan will further increase costs. A rate increase in 2007 is required to pay these additional costs.

- *Please check one of the following:*

☐ **This legislation does not have any financial implications.** *(Stop here and delete the remainder of this document prior to saving and printing.)*

☒ **This legislation has financial implications.** *(Please complete all relevant sections that follow.)*

Appropriations: *This table should reflect appropriations that are a direct result of this legislation. In the event that the project/ programs associated with this ordinance have appropriations that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below.*

None.

Anticipated Revenue/Reimbursement: Resulting From This Legislation: This table should reflect revenues/reimbursements that are a direct result of this legislation. In the event that the issues/projects associated with this ordinance/resolution have revenues or reimbursements that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below the table.

| Fund Name and Number | Department | Revenue Source | 2006 Revenue | 2007 Revenue |
|------------------------------------|--------------------------|----------------|--------------|--------------------|
| Drainage and Wastewater Fund 44010 | Seattle Public Utilities | Drainage Rates | \$0 | \$2,123,900 |
| TOTAL | | | \$0 | \$2,123,900 |

Notes: Revenue in 2007 shows the difference between the revenue received under 2006 rates and revenue received under the proposed rates. The detail of revenue increases by rate type appears in the 2007 Drainage Rate Proposal.

Total Regular Positions Created Or Abrogated Through This Legislation, Including FTE

Impact: This table should only reflect the actual number of positions created by this legislation. In the event that positions have been, or will be, created as a result of previous or future legislation or budget actions, please provide details in the Notes section below the table.

None.

Spending/Cash Flow: This table should be completed only in those cases where part or all of the funds authorized by this legislation will be spent in a different year than when they were appropriated (e.g., as in the case of certain grants and capital projects). Details surrounding spending that will occur in future years should be provided in the Notes section below the table.

Not Applicable.

- **What is the financial cost of not implementing the legislation?** (Estimate the costs to the City of not implementing the legislation, including estimated costs to maintain or expand an existing facility or the cost avoidance due to replacement of an existing facility, potential conflicts with regulatory requirements, or other potential costs if the legislation is not implemented.)

If this proposal is not implemented, the financial performance of the Drainage and Wastewater Fund (DWF) will suffer and Seattle Public Utilities may have to reduce levels of service.

- **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** *(Include any potential alternatives to the proposed legislation, such as reducing fee-supported activities, identifying outside funding sources for fee-supported activities, etc.)*

Not raising the rates at this time would result in DWF failing to recover the cost of its operations and failing to meet the financial policies. In addition, increased General Subfund utility tax revenue results from the rate increase. This increased tax revenue would not occur if the rates are not raised.

- **Is the legislation subject to public hearing requirements:** *(If yes, what public hearings have been held to date, and/or what plans are in place to hold a public hearing(s) in the future.)*

No.

- **Other Issues** *(including long-term implications of the legislation):*

Please list attachments to the fiscal note below:

Attachment 1 -- 2007 Drainage Rate Study



Seattle Public Utilities 2007 Drainage Rate Study

JUNE 2006

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I. EXECUTIVE SUMMARY

The Drainage and Wastewater Utility provides wastewater and stormwater management services to residents and businesses in the City of Seattle. It is supported almost entirely by utility fee revenue. For drainage, SPU charges City of Seattle property owners fees based on property characteristics contributing to stormwater run-off and collects these fees via the King County property tax collection system. For wastewater, SPU collects charges via the SPU combined utility bill. The wastewater rate consists of a system component, set to recover SPU expenses and a treatment component, set to recover payments to King County and Southwest Suburban Sewer District, whose facilities treat the wastewater conveyed by SPU's system.

For 2007, SPU proposes increasing drainage rates by an average of 8.1 percent while maintaining the current system component of the wastewater rate. The proposed drainage increase is a "maintenance" rate intended to support increased 2007 spending, without any modifications to the existing drainage structure. The Executive will present final drainage and rate incentive recommendations to City Council this summer which propose significant changes to the drainage rate and cost allocation structure for 2008 and beyond. This proposal does not assume any of these proposed changes except some minor 2007 funding for preparatory work on certain reform initiatives (see Section V- Rate Design).

The drainage rate increase supports a proposed \$3.0 million increase in the drainage revenue requirement. Table I-1 presents the monthly impact of the proposed fee increases on drainage bills for residential and select commercial customers.

Table I-1
Proposed 2007 Revenue Requirement and Impact on Typical Drainage Bills

| | 2006 | 2007 Proposed Change from '06 | |
|-------------------------------|--------------|-------------------------------------|-------------|
| Direct Service Revenue | \$36,968,350 | \$39,950,242 | \$2,981,892 |
| Typical Monthly Bills | | | |
| Residential | \$11.34 | \$12.09 | \$0.75 |
| Convenience Store (0.2 acres) | \$24.48 | \$27.00 | \$2.52 |
| Supermarket (2.87 acres) | \$351.27 | \$387.45 | \$36.18 |

Three factors are driving the proposed 2007 drainage rate increases:

- ◆ **Increase in Debt Service.** In 2006, SPU will issue new Drainage and Wastewater Fund (DWF) revenue bonds, which will increase the drainage revenue requirement by \$2.2 million beginning in 2007, when the first associated interest and principal payments will be due.

These bonds are expected to fund a portion¹ of drainage capital improvements between December 2006 and May 2008. Major drainage capital programs to be funded in 2007 include:

- Construction and design of storm sewer improvements throughout the City including at Martin Luther King Way, Meadowbrook,, Madison Valley (2007 Design), and N. 125th and Aurora Avenue N (2007 Design).
 - Construction of the Thornton Creek water quality channel
 - Construction of the Highpoint natural drainage system and design of the Venema Creek system
 - Development of an in-house drainage customer data management system
- ◆ **Base Operations and Maintenance (O&M) Expense.** Operations and Maintenance expense for current programs increases by \$2.1 million. About half -- \$1 million -- is due to changes made to labor-based allocation factors to more accurately reflect recent staff effort. This had the effect of shifting costs from wastewater to drainage. The total amount of the shift is actually \$2.3 million, but per SPU policy regarding intra-fund changes, the shift is capped at \$1.0 million in 2007, with the remainder to be applied in later years. Inflation accounts for most of the remaining increase -- \$756,000.
- ◆ **New Operating Expense.** SPU is proposing a \$1.4 million increase in the revenue requirement to fund expanded and/or new operations programs, including stewardship and technical assistance programs, water quality monitoring, drainage billing data management, business inspections, an apprenticeship program for field staff, natural drainage system maintenance, and facilities rent increases. Many of these additions are in support of the recommendations presented in the Comprehensive Drainage Plan adopted in 2005.

Three factors help mitigate the proposed rate increase:

- ◆ **A Reduction in Cash Financing of the CIP.** The proposed drainage rate increase assumes a \$1.5 million decrease in drainage cash financing of the CIP from 2006 to 2007. This reflects the cash available after the rate is set at the minimum level required to meet the binding constraint of generally positive net income. Even though this reduces the cash financing of the drainage portion of the CIP to 20 percent in 2007, SPU projects that the Drainage and Wastewater Fund (DWF) as a whole will be at 27 percent, exceeding the fund target.
- ◆ **Use of Cash Balances.** The proposed 2007 rates are set to produce lower net cash revenue than 2006, reducing the revenue requirement by \$0.5 million. Revenue generated by rates is used to fund current operating expenses, maintain a cash balance as a safeguard against unexpected expense, and to fund a portion of the current capital program. A rate may be set generate positive, negative or constant net cash revenue. Net cash revenue is equal to total

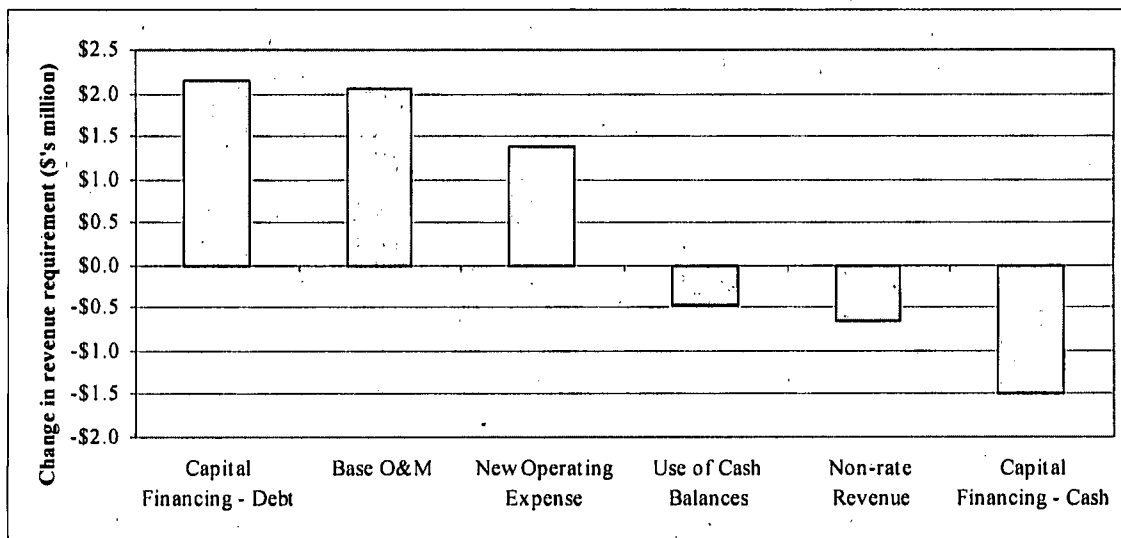
¹ Current revenues (cash) fund the balance of capital improvements.

cash revenue less total cash expense². A change in net cash revenue from one rate period to the next will impact the revenue requirement.

- ◆ **Non-Rates Revenue.** An increase in non-rates revenues is expected to reduce the rates revenue requirement by \$660,000 in 2007. Increased reimbursements for Sound Transit Light Rail and Seattle Housing Authority Integrated Drainage Plan capital expense are the primary sources.

Figure I-1 displays these factors:

**Figure I-1
2007 Drainage Rate Drivers**



The table on the following page shows projected financial performance of DWF under this proposal. The financial policy objectives for DWF are discussed in Section II (Financial Policies) of this proposal.

Wastewater Treatment Rate

SPU expects to increase the treatment component of the wastewater rate in 2007 to fund a proposed 10.7 percent increase in the King County treatment rate. This increase will result in a 9.9 percent overall increase to the wastewater rate. The increase in the treatment component of the rate is not part of this rate study, as Ordinance 121675 provides a pass-through mechanism for its adjustment. However, all Drainage and Wastewater Fund (DWF) financial performance data presented in this rate study assume the 9.9 percent overall increase. Appendix D provides further detail on the pass through mechanism and 2007 wastewater funding requirements.

² This differs from net income which includes non-cash items such as depreciation and amortization and excludes cash expenses such as debt service principal payments.

Table I-2
Drainage and Wastewater Fund Financial Summary

| | <u>2006 Projected</u> | <u>2007 Proposed</u> |
|--|-----------------------|----------------------|
| Operating Revenue | | |
| Wastewater Service | | |
| Wastewater Rate Revenue | 144,873,728 | 158,087,701 |
| High Strength Industrial Surcharge | 1,230,000 | 1,349,765 |
| Drainage Rate Revenue | 36,968,350 | 39,950,242 |
| Other Charges | | |
| Permit Fees | 1,424,652 | 1,424,652 |
| Other | 836,756 | 857,325 |
| Total Operating Revenue: | <u>185,333,487</u> | <u>201,669,686</u> |
| Operating Expenses | | |
| Operating and Maintenance Expenses | | |
| Wastewater Treatment | 90,255,476 | 99,895,675 |
| Other Operating Expenses | 39,568,082 | 44,007,041 |
| Taxes Other Than City Taxes | 2,185,279 | 2,341,920 |
| Other Expenses | | |
| City Taxes | 21,798,864 | 23,742,167 |
| Depreciation | 18,612,178 | 20,606,178 |
| Total Operating Expenses: | <u>172,419,880</u> | <u>190,592,981</u> |
| Net Operating Income: | <u>12,913,606</u> | <u>11,076,705</u> |
| Other Income (Expenses) | | |
| Investment and Interest Income | 986,949 | 1,544,285 |
| Interest Expenses and Amortization of | | |
| Debt Issue Costs and Net Discount | (13,685,741) | (15,749,362) |
| Other Income, Net | - | - |
| Total Other Income (Expenses): | <u>(12,698,792)</u> | <u>(14,205,077)</u> |
| Capital and Operating fees, Contributions, and Grants | 2,550,206 | 3,131,247 |
| Net Income (Loss) | <u>2,765,020</u> | <u>2,875</u> |
| Revenue Available for Debt Service | 54,311,598 | 56,969,335 |
| Debt Service | 21,635,880 | 24,873,522 |
| Debt Service Coverage | 2.51 | 2.29 |

II. DRAINAGE AND WASTEWATER FUND FINANCIAL OVERVIEW

The City of Seattle operates an integrated storm and sanitary sewerage system. Although funded through separate rate structures, the City's stormwater ("drainage") and sanitary sewer ("wastewater") systems share common infrastructure, administrative and maintenance services, debt financing, and financial budgeting and reporting systems.

SPU finances the acquisition, operation, and maintenance of Seattle's drainage and wastewater system through the Drainage and Wastewater Enterprise Fund (DWF). An enterprise fund functions like a self-supporting business which must generate operating revenues, predominantly through user charges (or "rates"), which are sufficient to cover all operating costs and meet financial policy targets. Separate drainage and wastewater service charges, or rates, are the source of most DWF revenues. Non-rate revenues include permit fee revenue, operating grants, capital grants, and contributions in aid of construction (CIAC). These non-rate revenues reduce the amount of revenue that must be recovered through rates.

Financial policies provide a guiding framework for Drainage and Wastewater finances. The policies help determine how much revenue DWF must collect from its customers each year to remain financially healthy while meeting its financial obligations. In addition, financial policies:

- ◆ shape the financial profile that DWF presents to lenders and other members of the financial community;
- ◆ establish DWF's exposure to financial risk; and
- ◆ allocate DWF's costs between current and future ratepayers.

Table II-1 summarizes DWF's financial policies, discusses their importance, and identifies the financial policy targets.

TABLE II-1
Summary of DWF Financial Policies

| Parameter | Importance | DWF Target |
|-----------------------|---|--|
| Debt Service Coverage | A higher debt service coverage ratio means that more "excess" revenue is available after debt payments are made. This reduces financial risk and provides more flexibility to respond to unanticipated needs or revenue shortfalls. | 1.80 times |
| Debt-to-Asset Ratio | This ratio provides an indicator of how reliant an organization is on debt to finance its infrastructure. A high ratio suggests less flexibility, as a greater portion of each year's revenues is used to repay debt. | No more than 70% |
| Cash-Financing of CIP | This policy 1) helps to prevent a rapid increase in debt levels, and 2) limits the escalation in the debt-to-assets ratio. | 25% (four-year rolling average) by 2007 |
| Year-End Cash Balance | Cash reserves are important to ensure bills are paid on time, and they can be used to respond to unanticipated needs or revenue shortfalls. | One month wastewater treatment expense by 2007 |

| Parameter | Importance | DWF Target |
|--------------------|---|--------------------------------|
| Net Income | Positive net income is a contingency against projection errors and uncertainties regarding revenues. It is also a signal to bond rating agencies that the City is committed to establishing drainage fees that cover costs. | Generally Positive |
| Variable Rate Debt | A cap on variable rate debt balances the advantages of lower interest costs with the risk of unexpected increases in interest rates. | No more than 15% of total debt |

Drainage and Wastewater Fund financial policies were adopted by City Council in 2003 by Resolution 30612. To mitigate the impact of these requirements on rates, the resolution provided for a gradual increase in the achievement of cash-related targets, with the expectation that all targets would be met by 2007. Table II-2 presents the interim targets established by the Resolution.

Table II-2
DWF 2004-2006 Interim Financial Policy Targets

| Policy | 2004 | 2005 | 2006 | 2007+ (1) |
|--------------------------|--------|---------|---------|-----------|
| Cash Balance Year End | 7.0 M | \$6.0 M | \$6.7 M | Varies M |
| <i>1 month treatment</i> | 7.0 M | \$7.5 M | \$7.5 M | \$8.4 M |
| Cash Financing of CIP | 11.5 % | 14.0 % | 17.6 % | 25.0 % |

Table II-2 Notes:

(1) 2007+ Cash Balance target is equal to one month wastewater treatment expense. One month actual and projected expense is presented above as a point of reference.

Table II-3 presents DWF actual and projected performance of financial policy targets in between 2004 and 2007.

Table II-3
DWF Financial Policy Performance 2004-2007

| Policy | Target | 2004 Actual | 2005 Actual | 2006 Projected | 2007 Proposed |
|-----------------------|--------------------|----------------|----------------|-------------------|------------------|
| Net Income | Generally Positive | (\$5.0) M | \$1.3 M | \$2.8 M | \$0.0 M |
| Debt Service Coverage | 1.8x | 2.19 x | 2.73 x | 2.51 x | 2.29 x |
| Cash Balance Year End | 1 Month Treatment | 7.7 M | \$8.9 M | \$10.5 M | \$8.3 M |
| | Treatment | | | | |
| Cash Financing of CIP | 25% | 14.8 % | 24.6 % | 25.0 % | 27.3 % |
| Debt-to-Asset Ratio | <=70% | 52% % | 51% % | 57 % | 57 % |
| Variable Rate Debt | <=15% | 0 % | 0 % | 0 % | 0 % |

DWF exceeded all interim targets in 2004 and 2005 and expects to meet or exceed 2006 interim and 2007 adopted financial policy targets. In addition, DWF has exceeded or is projected to exceed the debt service coverage targets presented to financial rating agencies at the time of the 2006 DWF revenue bond issue. The next DWF revenue bond issue is scheduled for September 2006. The fund's positive financial performance may result in an increase to at least one of DWF's bond ratings.

Financial policy targets are directed toward overall DWF financial performance. No formal, separate policy targets have been adopted for the drainage program or for the wastewater program. In theory, each line of business would contribute equally to meeting the DWF financial targets. That is, both drainage and wastewater would: a) finance 25% (or the applicable interim target) of its respective CIP program with cash; and b) pay a share of the DWF year end cash balance target equal to its proportional share of total DWF operating expenses. In practice, however, SPU may use financial targets to balance revenue requirements between wastewater and drainage. The table below provides a look at each line of business' cash balance and cash financing of the CIP under the current rate proposal assumptions. The wastewater contributions assume the treatment rate increase proposed in Appendix D.

TABLE II-4
DWF Cash Financing and Cash Balance Summary
By Line of Business

| (in 1,000's) | 2005 Actual | 2006 Projected | 2007 Projected |
|---------------------------|-------------|----------------|----------------|
| Drainage | | | |
| Year End Cash Balance* | \$1.1 | \$1.0 | \$1.1 |
| Cash Financing of CIP\$\$ | \$5.4 | \$6.2 | \$4.9 |
| % of Drainage CIP** | 26% | 24% | 20% |
| Wastewater | | | |
| Year End Cash Balance* | \$7.8 | \$9.5 | \$7.2 |
| Cash Financing of CIP\$\$ | \$4.6 | \$4.6 | \$7.9 |
| % of WW CIP** | 21% | 26% | 36% |
| Fund | | | |
| Year End Cash Balance* | \$8.9 | \$10.5 | \$8.3 |
| Cash Financing of CIP\$\$ | \$10.0 | \$10.8 | \$12.8 |
| DWF CIP | \$42.4 | \$43.3 | \$47.0 |
| % of DWF CIP** | 24% | 25% | 27% |

Table II-4 Notes:

* Cash balance is forecast by line of business for financial planning purposes. The Drainage and Wastewater Operating Fund does not separate cash transactions by line of business. Therefore, line of business "actual" YE Cash is estimated based on service revenues and estimated expense allocations.

** Includes financing from rate revenue, capital grants, and other contributions in aid of construction

III. REVENUE REQUIREMENTS

The revenue requirement is the minimum amount of operating revenue required to simultaneously meeting cash funding requirements and financial policy targets related to net income, cash balances, cash financing of the CIP, and debt service coverage. The component requiring the greatest amount of revenue generation (cash expenses or one of the financial policy requirements) is termed the “binding constraint”. The rates revenue requirement is equal to the total revenue requirement required to meet the binding constraint, less any non-rates revenues. Drainage service fees (or “rates revenues”) typically account for over 92% of drainage revenues. Non-rate drainage revenues include permit fees, miscellaneous operating revenues, interest income, operating grants, capital grants, and contributions in aid of construction (CIAC). Assuming constant demand, rate increases are required to fund increases in the revenue requirement from one rate setting period to the next.

Table III-1 summarizes the components of change in the drainage revenue requirement from 2006 to 2007.

Table III-1
Components of the Change in the Drainage Revenue Requirement³

| (\$1,000's) | Revenue Requirement | | \$ Change | % Change |
|--|---------------------|---------------|--------------|--------------|
| | 2006 | 2007 | | |
| Expense | | | | |
| Operations and Maintenance Expense (O&M) | | | | |
| Base O&M | 18,577 | 20,634 | 2,056 | 5.6% |
| New Operating Expense | - | 1,385 | 1,385 | 3.7% |
| Total | 18,577 | 22,018 | 3,441 | 9.3% |
| Capital Financing | | | | |
| Cash | 7,157 | 5,677 | (1,481) | -4.0% |
| Debt Service | 13,019 | 15,171 | 2,151 | 5.8% |
| Total | 20,177 | 20,847 | 670 | 1.8% |
| Total Revenue Requirement | 38,754 | 42,866 | 4,111 | 11.1% |
| Other Funding Sources | | | | |
| Non-Rates Revenue | (2,468) | (3,129) | (661) | -1.8% |
| Cash Balance | 682 | 214 | (468) | -1.3% |
| Total | (1,786) | (2,915) | (1,129) | -3.1% |
| Net Rates Rev Requirement | 36,968 | 39,950 | 2,982 | 8.1% |

³ All line items include the tax impact associated with increasing or reducing the revenue requirement. For example, the 2007 change in new operating expense is \$1.2 million while the change in the new operating expense revenue requirement presented in the Table III-1 is \$1.4 million. The difference of \$0.2 million is equal to the revenue taxes which must be paid on the additional revenue required to fund an additional \$1.2 million in operating expense.

The top section of Table III-1 presents the components of expense which make up the total revenue requirement. The bottom section of the table presents other sources of funding which reduce the amount of expense which must be recovered through direct service rates. The total revenue requirement increases by 11.1 percent from 2006 to 2007. However, the additional non-rates revenues and existing cash balances are used to fund 3.1 percent of this increase, reducing the increase in the rates revenue requirement to 8.1 percent.

Below is a more detailed description of the components of change in the revenue requirement.

Operations and Maintenance Expense (O&M)

The drainage O&M revenue requirement includes a portion of DWF shared administrative expense, as well as direct drainage operating expense associated with running a stormwater program (i.e. regulatory oversight, community outreach and education, etc.) and maintaining storm sewer system infrastructure.

Table III-2 presents proposed 2007 O&M spending increases by source.

Table III-2
Proposed Drainage Operating and Maintenance Expenditures

| (\$1,000's) | 2007 Increase |
|--|---------------|
| Base O&M | |
| Drainage/Wastewater Allocation Revisions | 1,000 |
| Change in G&A Credit | 33 |
| Inflation | 756 |
| Taxes | 267 |
| Change in Revenue Requirement | 2,056 |
| New O&M | |
| Stewardship, Technical Assistance, and Partnership Program | 256 |
| Water Quality Monitoring Program | 200 |
| Drainage Rate Billing Data Management | 170 |
| Inspections: Business, Stormwater Facility & Illicit Connections | 150 |
| Apprenticeship Program | 150 |
| Natural Drainage System Maintenance | 130 |
| City Central - Key Tower Rent | 149 |
| Taxes | 180 |
| Change in Revenue Requirement | 1,385 |
| Total Change in O&M | 3,441 |

Base O&M Expense

The base O&M for 2007 is assumed to equal the spending required to support operations and maintenance functions budgeted under the 2006 revised budget. Base O&M does not include debt service which is discussed under capital financing.

Under this proposal, base O&M increases by \$2.1 million. Four factors drive this increase. A new allocation of O&M expenses between drainage and wastewater shifts \$1 million in 2007 to drainage (see below). General inflation adds \$0.8 million. A reduction in the G&A credit due to reduced 2007 CIP spending⁴ adds \$33,000. The increase in revenue taxes associated with the overall change in base O&M adds \$0.3 million.

Allocation Revision in Detail: Operating expenses are budgeted for the DWF as a whole and not by line of business (drainage or wastewater). Consequently, operating expenses must be assigned to each line of business in order to establish separate revenue requirements for rate-setting purposes. SPU has developed a series of factors to assign cost, by budget activity, to drainage and to wastewater.

The DWF budgeted O&M expenses include both line-of-business-specific expenses (i.e. water quality monitoring or wastewater treatment), as well as shared administrative and business support expense. Shared expenses are assigned to each line of business based on prior period actual direct labor expense or on management estimate (where labor expense is not appropriate). Appendix C provides more detailed information on the cost assignment process.

As part of the current rate study, SPU reviewed the existing labor-based cost assignment factors and reset them based on 2005 actual spending. While some branches saw increases in the wastewater share, the net shift was toward drainage.

The primary factors underlying this shift in spending include:

- ◆ a significant increase in engineering labor expense on drainage CIP projects due to the implementation of the Comprehensive Drainage Plan. Engineering branch administration and support is based on direct CIP labor expense for the branch.
- ◆ increased 2005 spending on maintenance of storm sewer infrastructure (relative to spending on sewer infrastructure) resulting in a greater drainage share of field operations administration in 2006
- ◆ a decline in labor expense on drainage capital projects, resulting in a smaller drainage share of the general and administrative credit (which is an offset to O&M expense)
- ◆ the recent focus on the development of the Wastewater System Plan, resulting in a reduction in the drainage share of Science and Sustainability spending

⁴ The G&A credit is operating overhead (i.e. human resources, information technology, etc.) on capital projects. This credit reduces expense charged to the operating budget and reallocates it to capital expense. The budgeted G&A credit is based on adopted spending.

Table III-3 page presents the 2006 cost assignment changes by branch.

Table III-3
Change in Drainage Share of DWF Base O&M Spending
(\$1,000s)

| Program | Total DWF | Drainage 2006-Base | Drainage 2006- Revised | Change |
|--------------------------|------------------|-------------------------------|-----------------------------------|---------------|
| Customer Service | 6,507 | 200 | 128 | (72) |
| Director's Office | 1,341 | 888 | 938 | 50 |
| Engineering Services | 3,020 | 1,708 | 2,638 | 930 |
| Field Operations | 12,190 | 4,513 | 5,020 | 507 |
| Finance & Administration | 6,198 | 2,473 | 2,830 | 356 |
| G&A Credit | (4,700) | (2,713) | (2,379) | 334 |
| Science & Sustainability | 7,159 | 5,825 | 5,645 | (180) |
| SPU General Expenses* | 7,692 | 3,175 | 3,528 | 354 |
| Total Drainage | 39,407 | 16,069 | 18,348 | 2,280 |

This change in allocation increases the drainage share of O&M expenses by \$2.3 million, and reduces the wastewater share by a corresponding amount. SPU policy caps intra-fund changes at \$1 million per fund per year, and any change in excess of this amount is carried forward to the next year(s). This policy assists in smoothing budgetary impacts of significant cost assignment shifts which may be the result of temporary spending anomalies. SPU recommends applying this same policy to revisions in cost assignment between drainage and wastewater. Therefore, this rate proposal assumes that \$1 million of the total \$2.3 million change will be applied in 2007. The additional \$1.3 million will be netted against other cost assignment revisions in 2008.

More detail on the specific allocation shifts can be found in Appendix C, particularly Table C-1.

New Operations and Maintenance Expense

The 2007 proposed drainage rates support \$1.2 million in spending on expanded and/or new programs (plus \$0.2 million in associated taxes). Many of these additions are in support of the recommendations presented in the Comprehensive Drainage Plan adopted in 2005. Table III-4 presents a summary of proposed new expense by line item.

Table III-4
Proposed 2007 New Drainage Operations and Maintenance Expense

| Drainage Adjustment | Description | 2007 |
|--|--|--------------------|
| Stewardship, Technical Assistance, and Partnership Program | Meets Council initiative to develop incentives for on-site stormwater management. | \$256,000 |
| Water Quality Monitoring/Program | Water Quality Monitoring Program to meet Corporate Stormwater NPDES compliance requirements. | \$200,000 |
| Drainage Rate Billing Data Management | Project management and technical oversight of drainage billing data management at SPU (\$80K); Modification of Drainage Billing System (on King County mainframe) to accommodate proposed rate structure changes (\$40K); Increase in administration fee paid to King County for drainage billing and collections. Fee is revenue based so increases with rate increase (\$50K). | \$170,000 |
| Inspections: Business, Stormwater Facility & Illicit Connections | Inspections to meet partial Corporate Stormwater NPDES compliance requirements related to business, stormwater facility and illicit connections inspections. | \$150,000 |
| Drainage and Wastewater Apprenticeship Program | Establish and operate an apprenticeship program for drainage and wastewater (DWW) field workers. | \$150,000 |
| Natural Drainage System Maintenance | O&M for Natural Drainage Systems to assure functioning infrastructure of channel and landscape used at SEA Streets, Broadview, High Point and Pinehurst. | \$130,000 |
| City Central - Key Tower Rent | Anticipated drainage share of SPU Key Tower rent increase. | \$149,000 |
| TOTAL DRAINAGE | | \$1,205,000 |

Capital Financing Expense

DWF funds capital projects through a combination of cash (from direct service and non-rates revenue) and debt financing (revenue bonds). Major drainage capital programs to be funded in 2007 include:

- ◆ Construction and design of storm sewer improvements throughout the City including at Martin Luther King Way, Meadowbrook, Madison Valley (2007 Design), and N. 125th and Aurora Avenue N (2007 Design)
- ◆ Construction of the Thornton Creek water quality channel
- ◆ Construction of the Highpoint natural drainage system and design of the Venema Creek system
- ◆ Development of an in-house drainage billing management system

Change in Debt Service

SPU expects to issue approximately \$49 million in new DWF revenue bonds in September 2006. DWF debt service is expected to increase by \$3.3 million in 2007 as the first principal and interest payments on the 2006 revenue bond issue come due. The drainage portion of this new debt is projected at \$2.0 million and increases the revenue requirement by \$2.2 million, including taxes.

Change in CIP Cash Financing (Rate Reduction)

In 2003 Council established, via resolution, a 25 percent CIP cash financing target for the Drainage and Wastewater Fund. The resolution provided for a gradual increase in the achievement of this target, providing interim targets for 2004 through 2006. SPU expects to exceed both the 2006 interim and 2007 adopted CIP cash financing targets, with 25 percent cash financing in 2006 (interim target equals 18 percent) and 27 percent in 2007.

As further discussed in “Section II-Drainage and Wastewater Fund Financial Overview”, financial policy targets are directed toward overall DWF financial performance. No formal, separate policy targets have been adopted for the drainage program or for the wastewater program. In theory, each line of business would contribute equally to meeting the DWF financial targets, with both drainage and wastewater financing 25% (or the applicable interim target) of its respective CIP program with cash. In practice, however, SPU may use financial targets to balance revenue requirements between wastewater and drainage.

Under the current proposal, drainage cash financing of the CIP is projected to decrease by \$1.5 million in 2007. Table III-4 presents the drivers underlying this decrease.

Table III-4
Change in Drainage Cash Financing of the CIP

| (\$1,000's) | 2007 Change in CIP Cash Financing |
|--|--|
| Change in CIP Spending ('06 to '07) | (88) |
| Reduced Cash Contribution (24% to 20%) | (1,200) |
| Change in Revenue Taxes | (192) |
| Total Change from 2006 | (1,481) |

Note: For 2006, this assumes \$25.5M in CIP spending (90 percent accomplishment of the 2006 Revised DWF CIP Spending Plan). For 2007, this assumes \$25.1M in CIP spending (90 percent accomplishment of Proposed 2007 CIP).

In 2006, SPU expects to finance 24 percent of its drainage CIP program with cash. Assuming this same percentage were applied to 2007 spending, the cash contribution would decrease by \$88,000 as 2007 CIP spending is projected to be slightly lower than 2006 spending.

In order to minimize the drainage rate increase, SPU proposes to reduce drainage cash financing to 20 percent in 2007. This level of drainage cash financing sets the rate at the minimum level required to meet the binding constraint of generally positive net income. Assuming 20 percent drainage cash financing, SPU projects that the Drainage and Wastewater Fund will finance 27 percent of 2007 DWF CIP spending with cash, exceeding the 25 percent adopted policy target.

Use of Cash Balances (Rate Reduction)

Revenue generated by rates is used to fund current operating expenses, maintain a cash balance as a safeguard against unexpected expense, and to fund a portion of the current capital program. A rate may be set generate positive, negative or constant net cash revenue. Net cash revenue is equal to total cash revenue less total cash expense. This differs from net income which includes non-cash items such as depreciation and amortization and excludes cash expenses such as debt service principal payments. A change in net cash revenue from one rate period to the next will impact the revenue requirement. An increase in total net cash revenue will drive a rate/revenue increase while a decrease will reduce the rate/revenue requirement.

The proposed 2007 rates are set to reduce net cash revenue by \$0.5 million, as presented in Table III-5. This reduction in net cash revenue will reduce the overall drainage revenue requirement by 1.3 percent.

Table III-5
Change in Drainage Net Cash Revenue

| (\$1,000s) | 2006 | 2007 |
|--|-------------|-------------|
| Beginning Cash Balance-Actual | 1,063 | 960 |
| Beginning Cash Balance-Adjusted | 366 | 960 |
| Ending Cash Balance | 960 | 1,146 |
| Net Cash Revenue minus Adjusted Beginning Balance) | 594 | 186 |
| Change in Net Cash Revenue ('07 minus '06) | | (408) |
| Change in Revenue Taxes | | (61) |
| Net Change to Revenue Requirement | | (468) |

In 2006, the drainage rate plus other revenue sources produced enough cash to fund expenses plus add \$0.6 million to cash balances. This change in net revenue is calculated by subtracting an adjusted 2006 beginning cash balance from the 2006 ending cash balance. The 2006 beginning cash balance is adjusted to account for a \$0.7 million accounting anomaly which temporarily inflated the actual beginning balance but was unrelated to actual operating cash.

In 2007, net cash revenue equals \$0.2 million or \$0.4 million less than 2006 net revenue. Including the associated reduction in taxes, drainage rates must generate \$0.5 million less in revenue in 2007 to fund operating expenses and achieve a targeted \$1.1 million ending cash balance⁵.

Non-Rate Revenue (Rate Reduction)

Non-rate revenue is projected to increase by \$0.7 million⁶ from 2006 to 2007. This increase will reduce the amount to be recovered through rates by 1.8 percent. Non-rate revenue includes permit fees, operating and capital grants, contributions in aid of construction (CIAC), interest income and other miscellaneous revenues and capital contributions presented below.

The primary source of this increase is due to reimbursements (CIAC) for capital expense associated with the Sound Transit Light Rail and Seattle Housing Authority (SHA) Integrated Drainage Plan projects. A small increase in operating grants and interest income is also anticipated.

⁵ As described in Section II-Drainage and Wastewater Fund Financial Overview, the DWF targeted ending cash balance is equal to one month of wastewater treatment expense, or \$12.8 million in 2007. The 2007 drainage share of the DWF target equals 14 percent of the total which equals its share of total 2007 DWF proposed operating expense (excluding taxes and debt service).

⁶ Includes associated tax increase

IV. COST ALLOCATION

Once the revenue requirement is set, these costs must be allocated to different customer classes.⁷ Items driven by similar factors are grouped into cost classifications, which are allocated between customer classes based on defined customer characteristics. This chapter of the rate study describes the classifications and customer characteristics. It concludes with a presentation of the 2007 drainage cost of service for each customer class. The total cost of service is equal to the drainage revenue requirement.

The current rate study does not propose any changes to the cost allocation methodology used in the 2005-2006 rates process.

Cost Classifications and Allocation Factors

Drainage costs are grouped into four cost classifications:

- 1) Service Costs;
- 2) Customer Costs;
- 3) Capital & Other Costs; and
- 4) Taxes.

Service Costs

Items in the service cost classification are associated with managing stormwater run-off volumes and their impact on the aquatic environment. These costs include infrastructure maintenance and repair (pipes, culverts, detention systems, etc.), regulatory oversight, water quality monitoring, and support services. In 2007 proposed Service Costs total \$18.4 million, or 46 percent of total drainage line of business expense.

The share of service costs borne by residential customers has decreased over the last three years. From 1999 and 2003, a portion of service cost related to habitat programs and landslide mitigation was allocated exclusively to the residential customer class, with the balance allocated among all drainage customer classes based on flow. In 2004, the City determined that all Service Costs should be allocated between customer classes based on flow. That same year, SPU began to increase the percentage of operating expense allocated based on flow, thereby reducing the portion of expense borne exclusively by residential customers. The gradual re-allocation of all service expense using a flow basis was completed in 2006.

⁷ A customer class is a group of customers that places a unique cost on the utility or is administratively easier to serve as a group. Drainage has one residential customer class and six commercial customer classes.

Customer Costs

Customer Costs include billing administration and customer service expense. These expenses are allocated by parcel, as they are driven by the number of customers served rather than by property characteristics. Proposed Customer Costs total \$0.8 million in 2007. These amounts are about 2 percent of total expenses in the drainage line of business.

- ◆ **King County Charges for Drainage Billing System (DBS) Administration.** King County administers billing and collections of the drainage fee for the City of Seattle. The drainage fee appears as a line item (“SWM” or Surface Water Management fee) on semi-annual King County property tax statements. Drainage Billing System (DBS) records are also housed on the King County mainframe. King County charges an annual administrative fee for billing, collections, reporting, and data administration support.
- ◆ **SPU Customer Data Management.** Although DBS is housed on the King County mainframe, SPU is responsible for updating customer records. SPU currently utilizes King County reports as the basis for customer data updates. However, in 2007, SPU will begin the development of an on-site drainage customer data repository which it will maintain in house using various data sources⁸.
- ◆ **SPU Customer Service Support.** SPU is responsible for responding to drainage-related customer inquiries, and administering the drainage low-income utility credit. Consequently, internal customer service expenses are included in the Customer Cost classification.

Capital & Other Costs

Capital & Other Costs includes debt service payments and any other cash requirements necessary to support current operations and financial policy targets, such as cash financing of the CIP. Capital & Other expenses total \$15.6 million in 2007, representing 39 percent of total drainage expense respectively. Capital & Other Costs are allocated among customer classes based on flow.

Taxes

Assuming the proposed rate increases, taxes on drainage revenue (City B&O and State and other taxes) are projected to total \$5.2 million in 2007. This represents approximately 13 percent of total expenses in the drainage line of business. Taxes are allocated among the customer classes based on each class’ respective share of total cost, after allocating all other costs.

Table IV-1 summarizes the total expense for each cost classification group in 2007. This table also delineates the allocators used to assign the costs from each classification to the different customer classes.

⁸ Included in new O&M expense in Section III of this report.

Table IV-1
Drainage Cost Classification Summary

| Cost Classification | Allocator (1) | 2007 Cost | % of Total Cost |
|---------------------|-----------------|----------------------|-----------------|
| Service | Flow | 18,418,203 | 46.1% |
| Customer | Parcels | 773,003 | 1.9% |
| Taxes | % of Total Cost | 5,185,289 | 13.0% |
| Capital & Other | Flow | 15,573,747 | 39.0% |
| Total | | \$ 39,950,242 | 100% |

Table IV-2 Notes:

- 1) The "Allocator" is the customer characteristic or other measure used to allocate expense among customer classes.

Customer Characteristics by Class

Drainage customers belong to one of two broad classes: residential (single family and duplex) and commercial. Commercial customers are further divided into six rate classes that correspond to different levels of development, as measured by the percentage of impervious surface on the tax parcel. A description of each customer characteristic follows the table.

Table IV-2
Drainage Customer Characteristics by Class

| Customer Class | Percent Impervious | Parcel Count | Acreage | Run-off Coefficient | Total Flow |
|--------------------|--------------------|----------------|---------------|---------------------|---------------|
| Residential | 36-65 | 140,149 | 19,712 | 0.57 | 11,186 |
| Commercial | | 56,286 | 18,944 | | 11,263 |
| Open Space | 0-2 | 131 | 1,201 | 0.11 | 130 |
| Undeveloped | 0-15 | 8,671 | 5,696 | 0.19 | 1,054 |
| Light | 16-35 | 131 | 417 | 0.31 | 130 |
| Moderate | 36-65 | 479 | 1,242 | 0.57 | 705 |
| Heavy | 66-85 | 1,291 | 1,080 | 0.74 | 797 |
| Very Heavy | 86-100 | 45,583 | 9,308 | 0.91 | 8,447 |
| Total | | 196,435 | 38,655 | | 22,449 |

Table IV-2 Notes:

Parcel and acreage data is from drainage billing system records as of January 2006. This data was utilized for 2006 billings by King County.



Percent Impervious: The percentage of the parcel area that is covered by impervious surface (any hard or impermeable surface that is not green, grassy, growing vegetation or landscaped). Examples of impervious surfaces are pavement, blacktop, rooftops, parking lots, or patios. Impervious surface is used in the calculation of the run-off coefficient assigned to each customer class.

Number of Parcels: The Number of Parcels is the number of King County tax parcels within Seattle city limits.

Acreage: The total parcel area and is used in the calculation of the total flow by customer class.

Run-off Coefficient: The percentage of precipitation falling on a parcel that is expected to enter the drainage system as runoff. The run-off coefficient is calculated based on the concept that 95 percent of precipitation falling on impervious surface will flow into the drainage system, but only 10 percent of precipitation falling on pervious surface flows into the drainage system. The run-off coefficient is used in the calculation of total flow.

Total Flow: Equal to total acreage multiplied by the applicable run-off coefficient. This calculation approximates stormwater run-off that flows off the property into the public drainage system. Total flow is used to allocate the majority of drainage costs among the customer classes.

Cost of Service by Customer Class

Table IV-3 shows how 2007 proposed drainage costs by cost classification are allocated among the customer classes.

**Table IV-3
Drainage Cost of Service Summary 2007**

| Customer Class | Service | Customer | Taxes | Capital & Other | Total Cost | Percent of Rev Req |
|--------------------|----------------------|-------------------|---------------------|----------------------|----------------------|--------------------|
| Residential | 9,177,815 | 551,509 | 2,608,644 | 7,760,419 | 20,098,386 | 50.3% |
| Commercial | 9,240,388 | 221,494 | 2,576,645 | 7,813,328 | 19,851,856 | 49.7% |
| Open Space | 106,890 | 516 | 29,501 | 90,382 | 227,288 | 0.6% |
| Undeveloped | 864,501 | 34,122 | 243,061 | 730,990 | 1,872,675 | 4.7% |
| Light | 107,038 | 516 | 29,541 | 90,507 | 227,601 | 0.6% |
| Moderate | 578,145 | 1,885 | 159,428 | 488,858 | 1,228,315 | 3.1% |
| Heavy | 653,771 | 5,080 | 180,722 | 552,804 | 1,392,377 | 3.5% |
| Very Heavy | 6,930,043 | 179,376 | 1,934,393 | 5,859,787 | 14,903,600 | 37.3% |
| Total | \$ 18,418,203 | \$ 773,003 | \$ 5,185,289 | \$ 15,573,747 | \$ 39,950,242 | 100.0% |

Based on the above cost-of-service analysis, residential and commercial rates will fund an almost equal amount of the 2007 revenue requirement.

V. RATE DESIGN

Rate design is the last step in the rate setting process, wherein the structure and level of the rates are determined. For 2007, SPU is not proposing any changes to the structure of the rates but is proposing changes to the level of the rates based on the changes in the revenue requirements. SPU expects to offer a comprehensive rate redesign proposal in the coming months, which, if approved, may be built into 2008 rates and beyond.

Current Rate Design

All properties in Seattle, except city streets and state highways, are charged a drainage service fee. Docks and other similar properties, which rest over natural water bodies, are also exempted. To simplify billing and hold down administrative costs, all single-family homes and duplexes are assumed to be moderately impervious and pay a flat fee based on an average parcel size. All other properties have been assigned to one of the other six categories and are charged based on percent impervious area and actual parcel size. The open space category is reserved for parcels included on the Mayor's Open Space Map (primarily City greenbelts).

King County administers billing and collections of the drainage fee for the City of Seattle. The drainage fee appears as a line item ("SWM" or Surface Water Management fee) on semi-annual King County property tax statements.

Revenue Requirement and Proposed Rate Increase

As described in the Section III (Revenue Requirements), the amount of revenue that needs to be generated from the drainage rates will increase from \$37 million in 2006 to \$41.4 million in 2007. The table below summarizes the allocation of the drainage revenue requirement by drainage customer classes.

Table V-1
Drainage Rates Revenue Requirement

| Customer Class | 2006 | 2007 |
|--------------------|---------------------|---------------------|
| Residential | \$18,853,737 | \$20,098,386 |
| Commercial | \$18,114,613 | \$19,851,856 |
| Open Space | \$206,238 | \$227,288 |
| Undeveloped | \$1,602,957 | \$1,872,675 |
| Light | \$207,169 | \$227,601 |
| Moderate | \$1,044,739 | \$1,228,315 |
| Heavy | \$1,325,592 | \$1,392,377 |
| Very Heavy | \$13,727,919 | \$14,903,600 |
| Total | \$36,968,350 | \$39,950,242 |

Proposed Drainage Rates

Table V-2 presents proposed monthly drainage rates by rate class for 2007.

**Table V-2
2007 Proposed Monthly Drainage Rates**

| Class (% impervious) | 2006 Adopted | 2007 (Proposed) | Change from '06 | % Increase |
|--------------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| Residential, per parcel | \$11.34 | \$12.09 | \$0.75 | 6.6% |
| Commercial, per acre | | | | |
| Open Space (0-2%) | \$14.48 | \$15.96 | \$1.48 | 10.2% |
| Undeveloped (0-15%) | \$25.18 | \$27.72 | \$2.54 | 10.1% |
| Light (16-35%) | \$41.82 | \$45.96 | \$4.14 | 9.9% |
| Moderate (36-65%) | \$75.67 | \$83.40 | \$7.73 | 10.2% |
| Heavy (66-85%) | \$98.65 | \$108.65 | \$10.00 | 10.1% |
| Very Heavy (86-100%) | \$122.39 | \$135.00 | \$12.61 | 10.3% |

Table V-2 Notes:

- 1) All rates represent monthly charges. Actual billing is on a bi-annual cycle.

Table V-3 presents sample bills for different types of drainage customers, using the proposed rates.

**Table V-3
2007 Proposed Monthly Drainage Bills**

| | Single Family Residence | Convenience Store (0.2 acres) | Supermarket (2.87 acres) |
|------|------------------------------------|--|-------------------------------------|
| 2006 | \$11.34 | \$24.48 | \$351.27 |
| 2007 | \$12.09 | \$27.00 | \$387.45 |

Drainage Fee Discounts and Credits

Rainwater Harvesting Discount

SPU offers a 10 percent reduction in the drainage rates for any new or remodeled commercial building that utilizes a qualifying rainwater harvesting system. The rainwater harvesting system must be sized to use or infiltrate the amount of rain that falls on the roof of the building during a one-year, 24-hour storm event in order to qualify for the 10 percent discount. Those systems that involve indoor uses of rainwater must be permitted by Seattle-King County Department of Health in order to qualify for the rate reduction. Systems that rely solely on the capture and indoor use of rainwater will qualify for the reduction provided the system is sized to meet the performance requirement. Qualifying for the 10 percent reduction does not relieve the property owner of having to meet the applicable stormwater and drainage code requirements for the building and site. SPU is not proposing to change this program.

Low Income Utility Credit

The City assists qualified low-income customers with their drainage bills by providing a 50 percent credit. Qualified low-income customers receive this credit on their combined utility bill or, when no combined utility bill is received, on their City Light Bill or as a credit voucher. The latter options are typically applicable to renters who pay drainage, wastewater, and water utility fees indirectly as part of their rental payment.

For 2007, SPU is proposing to increase the amount of the credit consistent with the increase in the drainage fees. This increase will ensure that the amount of the credit continues to be 50 percent of the drainage bill.

Table V-4
Drainage Low Income Utility Credit (Monthly)

| | 2006 Adopted | 2007 Proposed |
|---------------|---------------------|----------------------|
| Single Family | \$5.67 | \$6.05 |
| Duplex | \$2.84 | \$3.02 |
| Multifamily | \$0.61 | \$0.65 |

Drainage Fee and Cost Allocation Structure Alternatives

In 2003, SPU initiated a thorough review of the drainage fee structure, identifying issues to be further addressed in the 2004 Drainage Rate Study. On November 22, 2004, the City Council adopted Resolution 30720 setting out a work plan and timeline for SPU to deliver to the Council by the first quarter of 2006 final recommendations for changes to the drainage rate structure and potential rate and non-rate incentives. Achievement of greater customer equity through a more nuanced drainage rate design and allocation of costs is a high priority of the Mayor and the City Council, and is a driving force behind this effort.

Resolution 30720 directs SPU to provide recommendations for non-rate incentives (regulatory and stewardship incentives such as technical assistance), rate incentives, rate design (cost allocation, rate structure) and billing system requirements. The resolution specifies that the rate design portion of the assessment address:

- Waterfront property fees
- Houseboat/pier fees
- Drainage fees to partially cover costs of combined sewer overflows
- A tiered or otherwise varied residential rate structure.
- Rate incentives for commercial and residential ratepayers installing qualified flow and water quality mitigation technologies on their properties.
- Right-of-way services and fees
- Revisions to current cost allocation structure.

The Council established intermediate steps in this process, the first of which was for SPU to provide by June 30, 2005, an analysis to the Council that would present options and recommendations on drainage cost allocation and rate structure alternatives, and both rate and non-rate incentives for customers to cost effectively manage stormwater runoff from their properties. This analysis was transmitted to the Council on July 11, 2005.

Based on feedback from the Mayor and Council on the 2005 analysis, the Executive further refined its recommendations for drainage rates and incentive options. The Executive expects to present final recommendations (“2006 Drainage Rate and Incentive Methodologies Report”) in the summer of 2006.

We expect to recommend a phased approach to implementing these changes. The drainage rates proposed in this rate study are “maintenance rates” to cover changes in the 2007 revenue requirement, but do not include any of the proposed changes to rate allocation or design methodologies. In 2008, we expect to be able to implement the recommended cost allocation and rate design changes and certain non-rate incentive programs. In 2009, SPU expects to be in a position to fully implement the drainage rate credit program.

Operating and capital expenses for 2007 do include some minor funding to for preparatory work on these reform initiatives, as presented in the “2006 Drainage Rate and Incentive Methodologies Report.” Table V-5 below summarizes these expenses.



Table V-5
Proposed 2007 Expense for the New Drainage Rate Design and Incentives

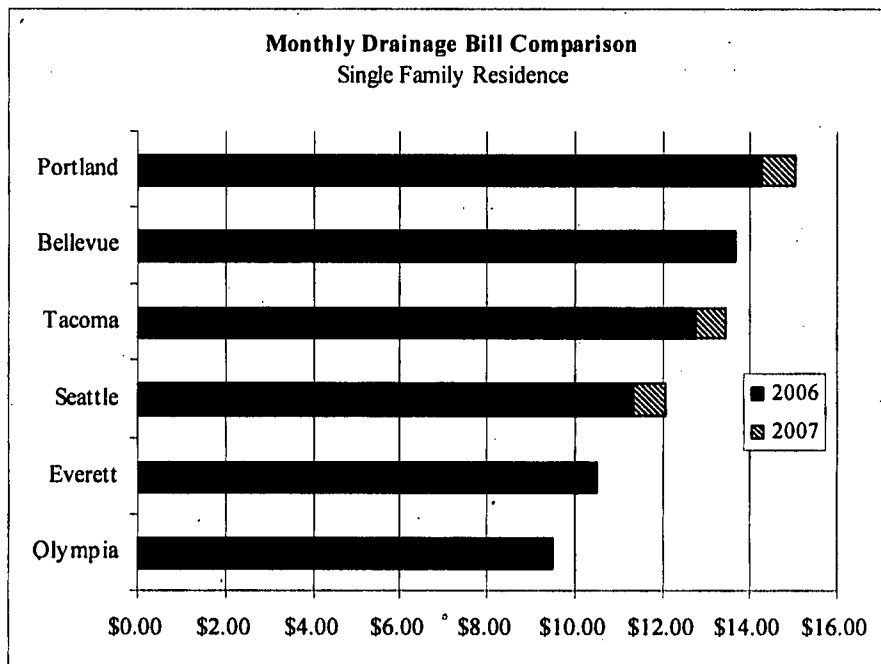
| | Description | 2007 Proposed |
|--|---|---------------|
| Operating and Maintenance Expense | | |
| Stewardship, Technical Assistance, and Partnership Program | Costs include program development, marketing, educational materials, workshops training sessions, and a suite of subsidized products for customers. Also includes technical assistance in support of stewardship program. | 256,000 |
| Drainage Rate Billing Data Management | Program management for the development of drainage customer data requirements, billing system modifications (on King County system), and increased King County administration fee. | 170,000 |
| Capital Expense | | |
| Non-Rate Incentives: Rain Catcher Program | Implementation of customer-based strategies throughout targeted basins to achieve flow reductions goals. | 200,000 |
| Data Development and Management | Development of new customer billing database and rate credit data tracking/management system. | 1,100,000 |

APPENDIX A — COMPARATIVE RATES

Bellevue, Portland, Tacoma, Olympia, and Everett contributed information on their drainage fee structures and rates to support bill comparisons for single-family residential and heavy industrial properties. All of the cities provided information for 2006. Preliminary estimates of 2007 rates were provided by Portland and Tacoma. Estimated rates for 2007 for Bellevue, Olympia, and Everett are not yet available.

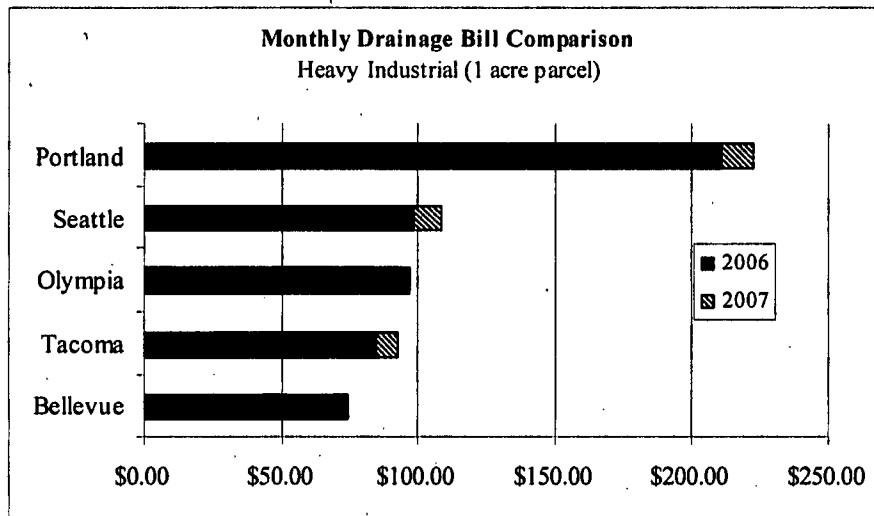
Drainage fee structures vary from city to city. Portland, Olympia, and Everett charge the same drainage fee for all single-family residential parcels, as does Seattle. Bellevue and Tacoma's drainage fees vary by single-family residential parcel size. Consequently, average parcel size information was collected from Bellevue (11,000 sq ft.) and Tacoma (6,500 sq ft.) and used in calculation of average bills.

Figure A-1



Commercial drainage fees for the cities in this comparison are based on impervious surface and parcel area. Olympia's drainage fees also vary depending on when the parcel was developed (the comparison assumes an average of the development date categories). Tacoma has a separate drainage fee structure for waterfront or direct discharge parcels, which is not included in this comparison. Everett is not included because its commercial drainage fees are based on water usage and therefore not comparable.

Figure A-2



APPENDIX B — DATA TABLES

| Table B-1 Drainage and Wastewater Fund Historical and Forecast Revenues | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Forecast Revenue (1) | | | | | | |
| Capital/Operating Grants | | | 50 | 50 | 1,087 | 1,298 |
| Public Toilets Service Fee | | | | | 690 | 711 |
| Wastewater Service Rates | 117,433 | 132,908 | 126,050 | 131,109 | 144,307 | 146,104 |
| Drainage Service Rates | 22,379 | 22,375 | 23,639 | 25,685 | 30,139 | 36,968 |
| Side Sewer Permit Fees | 336 | 462 | 373 | 373 | 700 | 446 |
| Drainage Permit Fees | 274 | 313 | 263 | 263 | 400 | 511 |
| SCL Call Center Service | 1,274 | - | 1,213 | 1,235 | 1,061 | 1,292 |
| Interest Earnings | 1,935 | 1,693 | 1,353 | 1,097 | 996 | 987 |
| Other Misc. Revenues | - | - | 150 | 150 | 17 | 126 |
| Use of Bond Proceeds | 20,276 | 39,550 | 43,899 | 37,040 | 38,995 | 32,426 |
| Total | 163,906 | 197,301 | 196,940 | 197,002 | 218,393 | 220,869 |
| Actual Revenue | | | | | | |
| Capital/Operating Grants | (1,656) | 541 | 797 | 1,212 | 2,050 | |
| Public Toilets Service Fee | | | | | 690 | |
| Wastewater Service Rates | 112,897 | 121,387 | 126,414 | 133,075 | 142,883 | |
| Drainage Service Rates | 22,481 | 22,313 | 23,653 | 27,039 | 31,361 | |
| Side Sewer Permit Fees | 459 | 373 | 406 | 446 | 914 | |
| Drainage Permit Fees | 289 | 263 | 232 | 380 | 511 | |
| SCL Call Center Service | - | - | 1,097 | 1,023 | 1,051 | |
| Interest Earnings | 2,287 | 1,546 | 1,087 | 376 | 1,899 | |
| Unreald Gns/Losses | 445 | | | | | |
| Other Misc. Revenues | 260 | 155 | 626 | 2,174 | 246 | |
| Use of Bond Proceeds | 28,280 | 51,208 | 40,480 | 28,845 | 32,419 | |
| Total | 165,742 | 197,785 | 194,791 | 194,570 | 214,024 | |

Table Notes:

1) Historical Revenue Forecast = Adopted Revenue for years in which rates were proposed.

Table B-2

**Drainage and Wastewater Fund
Historical and Forecast O&M**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Forecast O&M (1) | | | | | | | |
| Drainage | 10,360 | 10,537 | 13,888 | 15,399 | 14,541 | 16,692 | 19,813 |
| Treatment | 79,341 | 90,713 | 84,918 | 83,870 | 90,212 | 90,255 | 99,896 |
| Wastewater | 18,469 | 19,731 | 21,673 | 20,366 | 21,581 | 22,876 | 24,194 |
| Total | 108,170 | 120,980 | 120,480 | 119,635 | 126,333 | 129,824 | 143,903 |
| Actual O&M (2) | | | | | | | |
| Drainage | 8,928 | 8,351 | 13,553 | 15,662 | 16,205 | | |
| Treatment | 80,389 | 86,685 | 85,041 | 83,711 | 90,491 | | |
| Wastewater | 21,042 | 22,389 | 20,583 | 24,216 | 23,146 | | |
| Total | 110,360 | 117,425 | 119,177 | 123,588 | 129,842 | | |

Table Notes:

- 1) This forecast data was used as a basis for rate studies in the applicable years. Forecast O&M does not include revenue-based taxes (city and state utility) or debt service which are reported separately in the rates model. Non-revenue based taxes, such as property assessments, are included in forecast O&M figures. It does include certain non-cash expenses which are not included in the budget but are considered part of O&M expense on Financial Statements. The O&M data for and forward is net of the SCL revenue presented under forecast revenue above. For financial reporting purposes, this "revenue" is treated as an offset to expense. For budgeting purposes it is presented as revenue.
- 2) Non-treatment actual O&M is allocated between lines of business by the SPU rates group. The significant variance between 2004 actual and forecast O&M is primarily due to financial statement accounting adjustments included in actuals which were not foreseen when the original rate study forecast was developed. These adjustments are non cash expenses which do not affect cash flow. The 2004 actuals also include increased expenditures, primarily claims related, which were included in the revised budgeted but not in the adopted budget from which the original forecast was developed. About 70% of the variance between 2005 actuals and forecast is attributable to increased budgetary expense included in the revised budgeted but not in the adopted budget used to develop forecasted O&M. The largest component of this increase was in claims expense. The other 30% is related to non-cash accounting adjustments which exceeded those assumed in the original forecast.

Table B-3

**Drainage and Wastewater Fund
Financial Policy Data
(In thousands of dollars)**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------|---------|-------|---------|---------|--------|--------|--------|
| Forecast O&M (1) | | | | | | | |
| Net Income | (2,198) | (360) | (4,381) | (4,995) | 1,283 | 2,765 | 3 |
| Debt Service Coverage | 2.60 | 1.52 | 2.12 | 2.19 | 2.73 | 2.51 | 2.29 |
| Debt-to-Assets | 41% | 48% | 47% | 52% | 51% | 57% | 57% |
| Operating Cash | 10,883 | 7,133 | 7,216 | 7,737 | 8,855 | 10,472 | 8,325 |
| Cash Contribution % | 0 | 0.9% | 6.0% | 14.8% | 24.6% | 25.0% | 27.3% |
| Cash Contribution \$ | - | 456 | 2,623 | 5,025 | 10,421 | 10,837 | 12,824 |

Table Notes:

Financial policy targets are set for the fund as a whole. No specific targets exist for each line of business (drainage and wastewater). See Table II-3 in Section II for DWF targets.

Table B-4
Drainage and Wastewater Fund
Operating Fund Cash Flow, 2005-2007

| | 2005 Actual | "Revised" 2006 | "Projected" 2007 |
|-----------------------------------|--------------------|----------------------|--------------------|
| Beginning Cash Balance | 7,736,809 | 8,855,278 | 10,471,642 |
| Sources of Funds | | | |
| Interlocal Grants-Operating | 570,829 | 360,000 | 410,000 |
| Capital Contribution/Grant | 1,478,791 | 2,190,206 | 2,721,247 |
| Public Toilets Service Fee | 690,000 | 710,700 | 728,468 |
| Wastewater Utility Services | 142,883,101 | 146,103,728 | 159,437,467 |
| Drainage Utility Services | 31,360,996 | 36,968,350 | 39,950,242 |
| Side Sewer Permit Fees | 913,764 | 913,764 | 913,764 |
| Drainage Permit Fees | 510,888 | 510,888 | 510,888 |
| SCL Call Center Payments | 1,050,501 | 1,291,700 | 1,304,617 |
| Inv Earn-Residual Cash | 675,111 | 498,173 | 567,480 |
| Other Miscellaneous Revenues | 123,333 | 126,056 | 128,858 |
| Sources Subtotal: | 180,257,313 | 189,673,565.0 | 206,673,031 |
| Uses of Funds | | | |
| Administration | 7,603,238 | 6,780,920 | 6,993,871 |
| Customer Service | 6,225,730 | 6,531,868 | 6,906,997 |
| General Expense | 121,745,315 | 121,878,562 | 134,493,470 |
| Engineering Services | 2,629,317 | 2,675,699 | 2,759,728 |
| Field Operations | 10,975,662 | 12,443,979 | 13,984,775 |
| Resource Management | 6,616,385 | 7,982,578 | 9,119,266 |
| G&A Credits | (4,707,788) | (4,700,000) | (4,475,027) |
| Operations Subtotal: | 151,087,859 | 153,593,606 | 169,783,079 |
| Revenues Used for Capital Program | 10,004,587 | 10,836,596 | 12,823,613 |
| Debt Service | | | |
| Interest | 14,695,578 | 14,880,880 | 17,110,588 |
| Principal | 6,325,000 | 6,755,000 | 7,762,934 |
| Total Sources Net Uses: | (1,855,711) | 3,607,483 | (807,184) |
| Adjustments: | | | |
| Lags and Leads in Revenue | - | (481,307) | (1,339,819) |
| Other Assets and Liabilities | 2,974,180 | (1,509,811) | - |
| Ending Cash Balance | 8,855,278 | 10,471,642 | 8,324,640 |

Table Notes:

2007 Branch expenditures equal to 2006 plus proposed adds by branch. General expense includes revised wastewater treatment and tax expense. Allocation of funds shown here is preliminary. The allocation will be finalized with the 2007 budget. The \$0.8 million decline in Administration between 2005 and 2006 reflects transfer of the Asset Management function from the Director's Office to Resource Management as part of the SPU Reorganization



Attachment 1 to Fiscal Note
Table B-5

Drainage and Wastewater Fund
Construction Fund Cash Flow, 2005-2007

| | 2005 Actual | "Revised" 2006 | "Projected" 2007 |
|--------------------------------------|---------------------|-------------------|---------------------|
| Starting Cash Balance | 49,320,017 | 21,639,751 | 40,318,852 |
| Sources of Funds | | | |
| 2006 Bond Issue | | 49,201,877 | |
| 2007 Bond Issue | | | |
| Other Loans | 3,514,983 | 2,500,000 | 3,500,000 |
| Bond Issuance Costs | - | (964,743) | |
| Contributions in Aid of Construction | 1,478,791 | 2,190,206 | 2,721,247 |
| Interest Earnings | 1,224,183 | 488,776 | 976,805 |
| Transfers from Operating Fund | 8,525,796 | 8,525,796 | 8,525,796 |
| Total Sources: | 14,743,753 | 61,941,912 | 15,723,849 |
| Uses of Funds | | | |
| Combined Sewer Overflow | 4,544,205 | 3,908,000 | 4,801,613 |
| Flood Control and Local Drainage | 7,133,269 | 6,602,500 | 4,596,818 |
| General Wastewater | 6,498,136 | 6,036,000 | - |
| Pumps | | | 968,625 |
| Capacity | | | 952,020 |
| Habitat and Sediments | 2,838,754 | 5,141,457 | 3,665,093 |
| Other Drainage CIP | 3,987,407 | 4,597,050 | - |
| Protection of Beneficial Uses | 2,318,732 | 2,859,500 | 5,619,870 |
| Low Impact Development | | - | 2,050,049 |
| Public Asset Protection | 986,379 | 3,125,500 | 3,499,043 |
| Sewer Rehabilitation | 4,951,170 | 1,665,000 | 5,462,123 |
| Technology | 3,682,100 | 2,869,404 | 3,411,446 |
| Shared Projects | 5,483,868 | 6,458,400 | 11,962,498 |
| Total Uses: | 42,424,019 | 43,262,811 | 46,989,194 |
| Sources Net of Uses: | (27,680,266) | 18,679,101 | (31,265,346) |
| Ending Cash Balance | 21,639,751 | 40,318,852 | 9,053,507 |

Note: 2006 Uses assumes 90% accomplishment of 2006 CIP Spending Plan (at total CIP level-by BCL accomplishment may vary). 2007 Uses assumes 90% accomplishment of proposed 2007 CIP (inflated).



APPENDIX C— DWF COST ASSIGNMENT DETAIL

Drainage and Wastewater Cost Assignment Methodology

SPU conducted its last review of DWF cost assignment factors in 2003, using 2002 actual data. Those factors were used to determine the 2004 drainage cost of service and the wastewater system cost of service for 2004 through 2006. To maintain consistency, these same factors were applied when subsequently setting 2005 and 2006 drainage rates.

The current rate study uses the methodology described below for assigning operating expenses between drainage and wastewater lines of business. The cost assignment methodology is consistent with that of the 2004 through 2006 rate studies. The current rate study uses 2005 actual labor expense as the basis for labor related cost splits. Consistent use of actual expense over time helps to minimize errors in cost assignment resulting from variations between actual and budgeted spending.

DWF Operating Expenses are grouped into three categories:

- 1) Direct Operating Expense;
- 2) Branch and Division Administration; and
- 3) General and Administrative Expense.

Direct Operating Expense

Some expenses are assigned 100 percent to the applicable line of business (e.g., wastewater treatment and drainage billing administration). The majority of shared direct operating expenses are assigned based on actual direct labor expenses of an identified proxy. For example, most regulatory direct operating expense is related to water quality and combined sewer overflow (CSO) issues. Therefore, these activities are assigned based on actual direct labor expense for a subset of water quality and CSO-related capital and operating activities. The use of a programmatic proxy is useful in capturing any shifts in the focus of regulatory support over time.

Management estimates are used to identify the cost assignment factors for a limited number of activities. The bulk of activities using management estimates is related to billing and customer service activities. SPU is responsible for wastewater billing and for drainage and wastewater customer service.¹ Management estimates are used to identify labor effort associated with the support of each line of business for a targeted subset of customer service budgeted activities.

Branch and Division Administration

With the exception of the Engineering Services Branch, the cost assignment of all division general management expense is based on the sum of actual direct labor expenses for direct operating activities which charge to the division budget. The assignment of branch management expense is based on the sum of actual direct labor charged to direct operating and division administration activities rolling up to the branch budget.

¹ King County administers billing for drainage.

Administrative expense for the engineering division is assigned based on actual direct labor expense charged to capital projects by each division. Engineering branch management expense is assigned based on the sum of actual direct labor expense charged to capital projects by all engineering branch divisions.

This methodology creates a direct link between administrative functions and the activities they support. In addition, this methodology provides a consistent mechanism for updating administration cost assignment from year to year in the event that the programmatic focus of a particular branch or division changes.

General and Administrative Expense

Finance and Administration Branch expense is assigned based on the sum of actual direct labor expense for all direct operating and branch/division administrative activities which charge to the DWF budget.

Cost Assignment Factor

The DWF total operating budget for each operating activity is divided between the wastewater and drainage lines of business using the cost assignment factors in Table C-1. These factors represent the typical amount of support provided to each line of business in carrying out a specific type of activity. For example, the "Field Ops OH" factor assumes that the general management of field operations is related to drainage services about 45 percent of the time and to wastewater services about 55 percent of the time. Therefore, drainage and wastewater each receive their proportional shares of the activities assigned this factor.

Table C-1 (on the following page) presents detail on the applicability, basis, and drainage expense share associated with each cost assignment factor. The fourth column in this table shows the percentages which were applied in prior rate studies. The final column presents revisions to these factors, where applicable, based on 2005 direct labor data.

The application of the revised cost assignment factors increases the drainage share of DWF pre-existing O&M by \$2.3 million, and reduces the wastewater share by a corresponding amount. SPU policy regarding intra-fund (Solid Waste, Drainage and Wastewater, Water) expense assignment provides for a maximum annual change of \$1 million in assigned expense per fund. Any change in excess of this amount is carried forward to the next year(s). This policy assists in smoothing budgetary impacts of significant cost assignment shifts which may be the result of temporary spending anomalies. SPU recommends applying this same policy to revisions in cost assignment between drainage and wastewater. Therefore, this rate proposal assumes that \$1 million of the total \$2.3 million change will be applied in 2007. The additional \$1.3 million will be netted against other cost assignment revisions in 2008.

Table C-1
DWF Cost Assignment Factors

| Factor | Applicability | Basis | Drainage Share-Baseline | Drainage Share-Revised |
|-------------------------|---|---------------------------------------|--------------------------------|-------------------------------|
| CS Audit OH | Customer Service Audit Division administration. | 2005 Division Direct O&M Labor | 2% | 1% |
| CS Branch OH | Customer Service Branch administration. | 2005 Branch/Division Direct O&M Labor | 4% | 3% |
| CS Customer Response OH | Customer Service Customer Response Division administration. | 2005 Division Direct O&M Labor | 4% | 5% |
| CS Utility Svs OH | Customer Service Audit Division administration. | 2005 Division Direct O&M Labor | 8% | 7% |
| Management | Activities with no alternate indicator. Factor based on management estimates of support required for each line of business. Used for all direct customer service activities, neighborhood planning (Science & Sustainability) and limited environmental regional planning activities. | manage. est. of labor req. | Varies | Varies |
| CIP | CIP management, G&A Credit, and Corps Design Permit Review. | 2005 CIP Direct Labor | 59% | 51% |
| ES Branch OH | Engineering Services Branch administration | 2005 Branch Direct CIP Labor | 58% | 88% |
| ES CM | Engineering Construction Management Division administration | 2005 Division Direct CIP Labor | 60% | 65% |
| ES E | Engineering Services Engineering Division administration | 2005 Division Direct CIP Labor | 50% | 93% |
| ES ES | Engineering Services Engineering Support Division administration | 2005 Division Direct CIP Labor | 68% | 85% |
| D | Direct drainage services such as drainage repair, stormwater management, etc. | utility specific | 100% | 100% |
| Field Ops OH | Field Operations Branch administration | 2005 Branch/Division Direct O&M Labor | 34% | 45% |
| FO DW | Field Operations Drainage and Wastewater Division administration | | | 46% |
| FO SO | Field Operations Strategic Operations Division administration | | | 59% |

Table C-1 (cont.)

| Factor | Applicability | Basis | Drainage Share-Baseline | Drainage Share-Revised |
|---------------|--|---|--------------------------------|-------------------------------|
| Labor | Finance, human resources, information technology expenses. Labor refers to basis for factor (i.e. direct labor expense for activities that the finance and administration functions support. | 2005 Actual non-F&A Direct O&M Labor (All) | 40% | 46% |
| Model | Debt service and taxes are calculated for each utility by the rates model based on forecast CIP spending requirements and operating revenues respectively. | rates model | Model | Model |
| Regulation | General environmental and scientific/technical support activities. | 2005 Direct CIP Labor for Programs 310, 333, 350; 2005 Resource Planning Direct Service O&M Labor | 78% | 59% |
| SS Plan OH | Science & Sustainability Resource Planning Division Administration. | 2005 Division's Direct O&M Labor | 67% | 59% |
| SS Branch OH | Science & Sustainability Branch Administration. | 2005 Branch Direct O&M Labor | 81% | 74% |
| SS CS OH | Science & Sustainability Community Services division Administration. | 2005 Division's Direct O&M Labor | 99% | 92% |
| S | Direct wastewater services such as wastewater treatment, pump station maintenance, etc. | | 0% | 0% |
| SideSewer | DPD Side Sewer Contract and Side Sewer GIS Drafting | 2005 Permit Revenue | 44% | 47% |

Tables C-2 and C3 present the drainage and wastewater shares of proposed 2007 DWF operating expense. Operating expense includes wastewater treatment expense, pre-existing non-treatment O&M (administrative, field maintenance, programmatic), proposed O&M additions (See Section III-Revenue Requirements), debt service and revenue tax expense.

The rate model calculates proposed wastewater treatment expense, taxes, debt service, and G&A credit (part of non-treatment O&M) for each line of business based on various inputs (CIP spending, wastewater volumes, total revenues, etc.). The sum of proposed O&M additions is assigned directly to the applicable line of business. All other non-treatment O&M expense is assumed to equal the 2006 Revised Budget, inflated by 2.5%.

Table C-2 summarizes each line of business' share of expense by component. Table C3 provides cost assignment detail by activity.

Table C-2
DWF Proposed 2007 Operating Expenditures

| <i>(\$'s millions)</i> | 2007 | | |
|------------------------|-------------|-----------|--------------|
| | D | WW | Total |
| Treatment | | 99.9 | 99.9 |
| O&M | 19.1 | 24.7 | 43.8 |
| Taxes & Debt Service | 18.4 | 32.6 | 51.0 |
| Total | 37.5 | 157.1 | 194.7 |

This proposal assumes 2007 drainage and wastewater operating expenses of \$194.7 million. Drainage-related expenses are expected to account for approximately 19% of total proposed 2007 expenditures. Wastewater treatment payments are the single largest DWF operating expense, accounting for 51% of DWF's 2007 proposed expenditures.

Table C-3

DWF Proposed 2007 Operating Expenditures by Activity

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WWS07 | 2007 TOTAL (1) |
|--------------------------------|-------------------------------|----------------------|-------------------------|-------------------------|-----|------|-----------|-----------|----------------|
| Branch Administration | | | | | | | | | |
| N310194 | DEPARTMENT SUPPORT | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 95 | 2,651 | 2,745 |
| N310195 | GENERAL EXPENSE | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 2,378 | 66,387 | 68,765 |
| N310196 | GENERAL MANAGEMENT | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 6,656 | 185,816 | 192,472 |
| N310197 | TRAINING | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 345 | 9,618 | 9,963 |
| N310198 | SAFETY | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 93 | 2,599 | 2,692 |
| N310199 | PERSONNEL | Customer Service | Branch Administration | CS Branch OH | 3% | 97% | 242 | 6,762 | 7,004 |
| N410194 | DEPARTMENT SUPPORT | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 7,436 | 1,004 | 8,440 |
| N410195 | GENERAL EXPENSE | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 57,332 | 7,740 | 65,073 |
| N410196 | GENERAL MANAGEMENT | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 120,704 | 16,296 | 137,000 |
| N410197 | TRAINING | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 6,420 | 867 | 7,287 |
| N410198 | SAFETY | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 1,589 | 215 | 1,804 |
| N410199 | PERSONNEL | Engineering Services | Branch Administration | ES Branch OH | 88% | 12% | 3,110 | 420 | 3,530 |
| N510195 | GENERAL EXPENSE | Resource Management | Branch Administration | RM Branch OH | 74% | 26% | 26,439 | 9,139 | 35,578 |
| N510196 | GENERAL MANAGEMENT | Resource Management | Branch Administration | RM Branch OH | 74% | 26% | 82,390 | 28,480 | 110,870 |
| N510197 | TRAINING | Resource Management | Branch Administration | RM Branch OH | 74% | 26% | 870 | 301 | 1,170 |
| N510198 | SAFETY | Resource Management | Branch Administration | RM Branch OH | 74% | 26% | 654 | 226 | 881 |
| N610194 | DEPARTMENT SUPPORT | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 483 | 598 | 1,081 |
| N610195 | GENERAL EXPENSE | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 23,058 | 28,539 | 51,596 |
| N610196 | GENERAL MANAGEMENT | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 42,670 | 52,813 | 95,483 |
| N610197 | TRAINING | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 9,177 | 11,359 | 20,536 |
| N610198 | SAFETY | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 1,150 | 1,424 | 2,574 |
| N610199 | PERSONNEL | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 2,037 | 2,521 | 4,558 |
| N610402 | DISASTER-EMERG. PREPAREDNESS | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 13,672 | 16,922 | 30,595 |
| N610601 | PLANS/POLICY/PROCEDURES/ADMIN | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 17,135 | 21,208 | 38,342 |
| N610602 | OPERATIONS | Field Operations | Branch Administration | Field Ops OH | 45% | 55% | 36,924 | 45,701 | 82,624 |
| N652705 | COMMUNICATIONS/DISPATCH | Field Operations | Water Operation | S | 0% | 100% | - | 205,282 | 205,282 |
| N910106 | HEAVY EQUIP DEPREC OFFSET-DWW | G&A Credit | G&A Credit - Program | Field Ops OH | 45% | 55% | (109,934) | (136,066) | (246,000) |
| Division Administration | | | | | | | | | |
| N330195 | GENERAL EXPENSE | Customer Service | Audit & Accounting | CS Audit OH | 1% | 99% | 100 | 7,278 | 7,378 |
| N330196 | GENERAL MANAGEMENT | Customer Service | Audit & Accounting | CS Audit OH | 1% | 99% | 614 | 44,625 | 45,239 |
| N330197 | TRAINING | Customer Service | Audit & Accounting | CS Audit OH | 1% | 99% | 70 | 5,084 | 5,154 |
| N330198 | SAFETY | Customer Service | Audit & Accounting | CS Audit OH | 1% | 99% | 31 | 2,248 | 2,279 |
| N330199 | PERSONNEL | Customer Service | Audit & Accounting | CS Audit OH | 1% | 99% | 27 | 1,959 | 1,986 |
| N340195 | GENERAL EXPENSE | Customer Service | Customer Response | CS Customer Response OH | 5% | 95% | 14,702 | 290,410 | 305,112 |
| N340196 | GENERAL MANAGEMENT | Customer Service | Customer Response | CS Customer Response OH | 5% | 95% | 12,002 | 237,078 | 249,080 |
| N340197 | TRAINING | Customer Service | Customer Response | CS Customer Response OH | 5% | 95% | 2,565 | 50,662 | 53,227 |

Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WW507 | 2007 TOTAL (1) |
|----------|--------------------------------|---------------------|-------------------------|-------------------------|-----|-----|---------|---------|----------------|
| N340198 | SAFETY | Customer Service | Customer Response | CS Customer Response OH | 5% | 95% | 196 | 3,863 | 4,059 |
| N360194 | DEPARTMENT SUPPORT | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 144 | 1,951 | 2,095 |
| N360195 | GENERAL EXPENSE | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 4,121 | 55,983 | 60,104 |
| N360196 | GENERAL MANAGEMENT | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 4,962 | 67,413 | 72,375 |
| N360197 | TRAINING | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 1,786 | 24,258 | 26,043 |
| N360198 | SAFETY | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 432 | 5,873 | 6,305 |
| N360199 | PERSONNEL | Customer Service | Utility SVC Teams | CS Utility Svs OH | 7% | 93% | 337 | 4,583 | 4,920 |
| N530194 | DEPARTMENT SUPPORT | Resource Management | Community Services | RM CS OH | 92% | 8% | 3,238 | 300 | 3,538 |
| N530195 | GENERAL EXPENSE | Resource Management | Community Services | RM CS OH | 92% | 8% | 63,103 | 5,849 | 68,952 |
| N530196 | GENERAL MANAGEMENT | Resource Management | Community Services | RM CS OH | 92% | 8% | 64,908 | 6,016 | 70,924 |
| N530197 | TRAINING | Resource Management | Community Services | RM CS OH | 92% | 8% | 4,393 | 407 | 4,800 |
| N530198 | SAFETY | Resource Management | Community Services | RM CS OH | 92% | 8% | 6,207 | 575 | 6,782 |
| N530199 | PERSONNEL | Resource Management | Community Services | RM CS OH | 92% | 8% | 3,577 | 332 | 3,909 |
| N560194 | DEPARTMENT SUPPORT | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 36,135 | 24,752 | 60,887 |
| N560195 | GENERAL EXPENSE | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 133,996 | 91,785 | 225,780 |
| N560196 | GENERAL MANAGEMENT | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 283,729 | 194,350 | 478,079 |
| N560197 | TRAINING | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 33,960 | 23,262 | 57,223 |
| N560198 | SAFETY | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 7,629 | 5,226 | 12,855 |
| N560199 | PERSONNEL | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 14,784 | 10,127 | 24,911 |
| N620194 | D&W PLANNING SUPPORT | Resource Management | Resource Planning | RM Plan OH | 59% | 41% | 135,795 | 93,017 | 228,812 |
| N620195 | DEPARTMENT SUPPORT | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 16,837 | 20,066 | 36,904 |
| N620196 | GENERAL EXPENSE | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 181,222 | 215,975 | 397,197 |
| N620197 | GENERAL MANAGEMENT | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 448,663 | 534,704 | 983,367 |
| N620198 | TRAINING | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 196,672 | 234,388 | 431,059 |
| N620199 | SAFETY | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 223,119 | 265,907 | 489,026 |
| N620601 | GENERAL FIELD SUPPORT | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 50,196 | 59,822 | 110,019 |
| N670194 | DEPARTMENT SUPPORT | Field Operations | Drainage & Wastewater | FO DWV | 46% | 54% | 363,075 | 432,702 | 795,777 |
| N670195 | GENERAL EXPENSE | Field Operations | Strategic Operations | FO SO | 59% | 41% | 4,189 | 2,911 | 7,101 |
| N670196 | GENERAL MANAGEMENT | Field Operations | Strategic Operations | FO SO | 59% | 41% | 25,250 | 17,546 | 42,796 |
| N670197 | TRAINING | Field Operations | Strategic Operations | FO SO | 59% | 41% | 31,828 | 22,118 | 53,946 |
| N670198 | SAFETY | Field Operations | Strategic Operations | FO SO | 59% | 41% | 7,276 | 5,056 | 12,332 |
| N670199 | PERSONNEL | Field Operations | Strategic Operations | FO SO | 59% | 41% | 3,649 | 2,536 | 6,185 |
| N670301 | MMS ADMIN & MANAGEMENT | Field Operations | Strategic Operations | FO SO | 59% | 41% | 6,085 | 4,228 | 10,313 |
| N670302 | PLANNING, SCHEDUL., CIP COORD. | Field Operations | Strategic Operations | FO SO | 59% | 41% | 53,970 | 37,505 | 91,475 |
| N670303 | RESEARCH & MGMT REPORTING | Field Operations | Strategic Operations | FO SO | 59% | 41% | 160,756 | 111,711 | 272,467 |
| N670304 | STRATEGY DEV. & FORECASTING | Field Operations | Strategic Operations | FO SO | 59% | 41% | 73,095 | 50,795 | 123,889 |
| | | | | | 59% | 41% | 32,873 | 22,844 | 55,717 |



Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WW\$07 | 2007 TOTAL (I) |
|--------------------------|---------------------------------|--------------------------|---------------------------------|------------------------|------|------|-----------|------------|----------------|
| N670314 | DWW-STRATEGY DEVL&FORECASTING | Field Operations | Strategic Operations | FO SO | 59% | 41% | 5,067 | 3,521 | 8,587 |
| Direct Operations | | | | | | | | | |
| N010405 | Utility Payment Center | SPU General Expenses | General Expense | S | 0% | 100% | - | - | - |
| N010406 | COUNCIL UTILITIES OVERSIGHT | SPU General Expenses | General Expense | Management | 50% | 50% | 39,206 | 39,206 | 78,413 |
| N010411 | E-Payments | SPU General Expenses | General Expense | S | 0% | 100% | - | 50,738 | 50,738 |
| N050401 | APT CONTRACTOR PMT - WW | SPU General Expenses | Major Contract Svc - Contract S | S | 0% | 100% | - | 728,468 | 728,468 |
| N060101 | METRO/KC/PORT PAYMENTS | SPU General Expenses | Major Contract Svc - Metro | S | 0% | 100% | - | 99,912,311 | 99,912,311 |
| N060102 | PYMTS TO SW SUBURBAN SEWER DIS. | SPU General Expenses | Major Contract Svc - Metro | S | 0% | 100% | - | 447,496 | 447,496 |
| N060103 | DCLU SIDE SEWER CONTRACT - WW | SPU General Expenses | Major Contract Svc - Metro | SideSewer | 47% | 53% | 460,550 | 513,200 | 973,750 |
| N060107 | DRAIN. STATE INCENT PROG - DPD | SPU General Expenses | Major Contract Svc - Metro | D | 100% | 0% | 53,300 | - | 53,300 |
| N060108 | Drainage Admin Fee | SPU General Expenses | Major Contract Svc - Metro | D | 100% | 0% | 404,142 | - | 404,142 |
| N070102 | CITY B&O - DWF | SPU General Expenses | Taxes | Model | 20% | 80% | 4,777,939 | - | 23,961,380 |
| N070202 | STATES TAXES - DWF | SPU General Expenses | Taxes | Model | 26% | 74% | 611,219 | 1,751,567 | 2,362,789 |
| N130606 | ESA STRATEGY DEVELOP/RESEARCH | Director's Office | Strategic Policy | D | 100% | 0% | 199,003 | - | 199,003 |
| N130607 | WRIA PLANNING | Director's Office | Strategic Policy | D | 100% | 0% | 110,831 | - | 110,831 |
| N130609 | MARINE NEARSHORE INVENTORY GRNT | Director's Office | Director's Office Admin | D | 100% | 0% | 264,809 | - | 264,809 |
| N220404 | CIP MANAGEMENT | Finance & Administration | Finance | CIP | 51% | 49% | 50,662 | 48,792 | 99,454 |
| N241704 | SIDE SEWER DRAFTING GIS-WW | Finance & Administration | Information Technology | SideSewer | 47% | 53% | 77,328 | 86,168 | 163,496 |
| N320196 | GENERAL MANAGEMENT | Customer Service | CUBS | S | 0% | 100% | - | 76,427 | 76,427 |
| N320197 | TRAINING | Customer Service | CUBS | S | 0% | 100% | - | 3,174 | 3,174 |
| N320302 | IVR SUPPORT | Customer Service | CUBS | S | 0% | 100% | - | 340 | 340 |
| N320303 | OPERATIONS | Customer Service | CUBS | S | 0% | 100% | - | 1,276,596 | 1,276,596 |
| N330301 | RESIDENTIAL | Customer Service | Audit & Accounting | S | 0% | 100% | - | 95,414 | 95,414 |
| N330302 | NON-RESIDENTIAL | Customer Service | Audit & Accounting | S | 0% | 100% | - | 146,581 | 146,581 |
| N330401 | Billing | Customer Service | Audit & Accounting | S | 0% | 100% | - | 205,000 | 205,000 |
| N330402 | UTILITY CREDIT | Customer Service | Audit & Accounting | Management | 5% | 95% | 5,868 | 111,495 | 117,364 |
| N330403 | CUBS ACCOUNTING | Customer Service | Audit & Accounting | S | 0% | 100% | - | 69,879 | 69,879 |
| N340301 | CALL CENTER | Customer Service | Customer Response | Management | 5% | 95% | 59,781 | 1,135,844 | 1,195,625 |
| N340302 | WALK-IN CENTER | Customer Service | Customer Response | Management | 5% | 95% | 7,513 | 142,752 | 150,265 |
| N340401 | PROCESS IVR & CORRESP | Customer Service | Customer Response | Management | 0% | 100% | - | 243,639 | 243,639 |
| N340501 | SURVEY & SERVICE IMPROVE. | Customer Service | Customer Response | S | 0% | 100% | - | 5,646 | 5,646 |
| N350195 | GENERAL EXPENSE | Customer Service | Metering | S | 0% | 100% | - | 159,484 | 159,484 |
| N350196 | GENERAL MANAGEMENT | Customer Service | Metering | S | 0% | 100% | - | 119,966 | 119,966 |
| N350197 | TRAINING | Customer Service | Metering | S | 0% | 100% | - | 12,283 | 12,283 |
| N350198 | SAFETY | Customer Service | Metering | S | 0% | 100% | - | 19,675 | 19,675 |
| N350199 | PERSONNEL | Customer Service | Metering | S | 0% | 100% | - | 35,640 | 35,640 |
| N350401 | METER TESTING | Customer Service | Metering | S | 0% | 100% | - | 112,149 | 112,149 |



Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WWS07 | 2007 TOTAL (1) |
|----------|---------------------------|----------------------|--------------------------|------------------------|------|------|---------|---------|----------------|
| N350402 | METER REPAIR | Customer Service | Metering | S | 0% | 100% | - | 91,099 | 91,099 |
| N350403 | CUSTOMER REMOVES/RESETS | Customer Service | Metering | S | 0% | 100% | - | 18,132 | 18,132 |
| N350404 | READ METERS | Customer Service | Metering | S | 0% | 100% | - | 529,623 | 529,623 |
| N350405 | READ SEWER SUBMETERS | Customer Service | Metering | S | 0% | 100% | - | 14,330 | 14,330 |
| N350406 | READING MAINTENANCE | Customer Service | Metering | S | 0% | 100% | - | 60,985 | 60,985 |
| N360401 | RESIDENTIAL ACCT CUS | Customer Service | Utility SVC Teams | S | 0% | 100% | - | 187,309 | 187,309 |
| N360402 | COMMERCIAL ACCT CUS | Customer Service | Utility SVC Teams | Management | 2% | 98% | 3,000 | 146,989 | 149,988 |
| N360403 | KEY MAJOR ACCT CUS | Customer Service | Utility SVC Teams | Management | 2% | 98% | 3,484 | 170,705 | 174,189 |
| N360411 | SIDE SEWER | Customer Service | Utility SVC Teams | S | 0% | 100% | - | 269,862 | 269,862 |
| N420195 | GENERAL EXPENSE | Engineering Services | Construction Management | ES CM | 65% | 35% | 94,290 | 49,855 | 144,145 |
| N420196 | GENERAL MANAGEMENT | Engineering Services | Construction Management | ES CM | 65% | 35% | 109,694 | 58,000 | 167,694 |
| N420197 | TRAINING | Engineering Services | Construction Management | ES CM | 65% | 35% | 41,693 | 22,045 | 63,739 |
| N420198 | SAFETY | Engineering Services | Construction Management | ES CM | 65% | 35% | 43,513 | 23,007 | 66,520 |
| N420199 | PERSONNEL | Engineering Services | Construction Management | ES CM | 65% | 35% | 11,160 | 5,901 | 17,060 |
| N420301 | LANDSLIDE INVESTIGATION | Engineering Services | Construction Management | D | 100% | 0% | 10 | - | 10 |
| N430194 | DEPARTMENT SUPPORT | Engineering Services | Engineering Support | ES ES | 85% | 15% | 376 | 66 | 442 |
| N430195 | GENERAL EXPENSE | Engineering Services | Engineering Support | ES ES | 85% | 15% | 66,461 | 11,728 | 78,189 |
| N430196 | GENERAL MANAGEMENT | Engineering Services | Engineering Support | ES ES | 85% | 15% | 242,955 | 42,874 | 285,829 |
| N430197 | TRAINING | Engineering Services | Engineering Support | ES ES | 85% | 15% | 63,256 | 11,163 | 74,418 |
| N430198 | SAFETY | Engineering Services | Engineering Support | ES ES | 85% | 15% | 4,414 | 779 | 5,193 |
| N430199 | PERSONNEL | Engineering Services | Engineering Support | ES ES | 85% | 15% | 3,924 | 693 | 4,617 |
| N430289 | CAPITAL PURCHASE | Engineering Services | Engineering Support | ES ES | 85% | 15% | 24,932 | 4,400 | 29,331 |
| N430306 | ENGINEERING RECORDS/VAULT | Engineering Services | Engineering Support | ES ES | 85% | 15% | 11,734 | 2,071 | 13,804 |
| N430308 | MONUMENTATION | Engineering Services | Engineering Support | ES ES | 85% | 15% | 7,430 | 1,311 | 8,741 |
| N430312 | STANDARD PLANS | Engineering Services | Engineering Support | ES ES | 85% | 15% | 25,493 | 4,499 | 29,992 |
| N430313 | STANDARD SPECS | Engineering Services | Engineering Support | ES ES | 85% | 15% | 35,162 | 6,205 | 41,368 |
| N430314 | SURVEY STUDIES | Engineering Services | Engineering Support | ES ES | 85% | 15% | 1,233 | 218 | 1,451 |
| N450195 | GENERAL EXPENSE | Engineering Services | Drainage/Wastewater & SW | ES DW | 100% | 0% | - | - | - |
| N450196 | GENERAL MANAGEMENT | Engineering Services | Drainage/Wastewater & SW | ES DW | 100% | 0% | - | - | - |
| N450197 | TRAINING | Engineering Services | Drainage/Wastewater & SW | ES DW | 100% | 0% | - | - | - |
| N450306 | GENERAL DW ENGINEERING | Engineering Services | Drainage/Wastewater & SW | ES DW | 100% | 0% | - | - | - |
| N450309 | SIDE SEWER COORDINATION | Engineering Services | Drainage/Wastewater & SW | ES DW | 100% | 0% | - | - | - |
| N451001 | SPOT DRAINAGE PROGRAM | Engineering Services | Drainage/Wastewater & SW | Sidesewer | 47% | 53% | - | - | - |
| N451002 | LANDSLIDE PROGRAM | Engineering Services | Drainage/Wastewater & SW | D | 100% | 0% | - | - | - |
| N470194 | DEPARTMENT SUPPORT | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |
| N470195 | GENERAL EXPENSE | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |
| N470196 | GENERAL MANAGEMENT | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |



Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WWS07 | 2007 TOTAL (1) |
|----------|--------------------------------|----------------------|-------------------------|------------------------|------|------|-----------|---------|----------------|
| N470197 | TRAINING | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |
| N470198 | SAFETY | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |
| N470199 | PERSONNEL | Engineering Services | Water Engineering | S | 0% | 100% | - | - | - |
| N480194 | DEPARTMENT SUPPORT | Engineering Services | Engineering | ES E | 93% | 7% | 1,039 | 83 | 1,122 |
| N480195 | GENERAL EXPENSE | Engineering Services | Engineering | ES E | 93% | 7% | 87,188 | 6,953 | 94,141 |
| N480196 | GENERAL MANAGEMENT | Engineering Services | Engineering | ES E | 93% | 7% | 750,621 | 59,864 | 810,485 |
| N480197 | TRAINING | Engineering Services | Engineering | ES E | 93% | 7% | 72,176 | 5,756 | 77,932 |
| N480198 | SAFETY | Engineering Services | Engineering | ES E | 93% | 7% | 36,569 | 2,916 | 39,485 |
| N480199 | PERSONNEL | Engineering Services | Engineering | ES E | 93% | 7% | 15,398 | 1,228 | 16,626 |
| N480301 | SPOT DRAINAGE PROGRAM | Engineering Services | Engineering | D | 100% | 0% | 85,205 | - | 85,205 |
| N480302 | PUBLIC ASSET PROTECTION | Engineering Services | Engineering | D | 100% | 0% | 305,806 | - | 305,806 |
| N480303 | DAM ENGINEERING | Engineering Services | Engineering | S | 0% | 100% | - | - | - |
| N480304 | CP/CORROSION ENGINEERING | Engineering Services | Engineering | S | 0% | 100% | - | - | - |
| N480305 | DPD ENGINEERING SUPPORT | Engineering Services | Engineering | ES E | 93% | 7% | 96,233 | 7,675 | 103,908 |
| N480306 | OTHER PLAN REVIEW | Engineering Services | Engineering | ES E | 93% | 7% | 96,233 | 7,675 | 103,908 |
| N480307 | GENERAL ENGINEERING | Engineering Services | Engineering | ES E | 93% | 7% | 173,220 | 13,815 | 187,035 |
| N530307 | URBAN CREEKS MONITORING | Resource Management | Community Services | D | 100% | 0% | 95,146 | - | 95,146 |
| N530308 | SURFACE WTR MONITORING & SAMPL | Resource Management | Community Services | D | 100% | 0% | 202,948 | - | 202,948 |
| N530309 | SURFACE WTR QUALITY INSPECTION | Resource Management | Community Services | D | 100% | 0% | 626,708 | - | 626,708 |
| N530310 | SURFACE WATER QUALITY | Resource Management | Community Services | D | 100% | 0% | 436,060 | - | 436,060 |
| N530401 | WTR QUALITY EDUC PROGRAM | Resource Management | Community Services | D | 100% | 0% | 667,068 | - | 667,068 |
| N530404 | NEIGHBORHOOD PLAN RESOURCES | Resource Management | Community Services | D | 100% | 0% | 70,485 | - | 70,485 |
| N530609 | NATURAL L&G AND SB - DRAINAGE | Resource Management | Community Services | D | 80% | 20% | 215,045 | 17,621 | 88,106 |
| N560301 | DATA COLLECTION, RPT/ANALYSIS | Resource Management | Community Services | D | 100% | 0% | - | - | 215,045 |
| N560302 | FACILITY ASSESSMENT | Resource Management | Resource Planning | S | 0% | 100% | - | 352,271 | 352,271 |
| N560303 | INFORMATION REQUESTS | Resource Management | Resource Planning | S | 0% | 100% | - | 63,595 | 63,595 |
| N560304 | Wastewater Planning Support | Resource Management | Resource Planning | S | 0% | 100% | - | 14,848 | 14,848 |
| N560902 | STORMWATER PROGRAM | Resource Management | Resource Planning | S | 0% | 100% | - | 328,355 | 328,355 |
| N561002 | Surface Water Quality Program | Resource Management | Resource Planning | D | 100% | 0% | 515,394 | - | 515,394 |
| N561005 | DUWAMISH SOURCE CONTROL | Resource Management | Resource Planning | D | 100% | 0% | 1,158,646 | - | 1,158,646 |
| N561101 | EVAL/ANALYSIS/WP-DWF | Resource Management | Resource Planning | D | 100% | 0% | 339,793 | - | 339,793 |
| N561301 | DATA RPTG/RESEARCH SPT-DWF | Resource Management | Resource Planning | Regulation | 59% | 41% | 12,735 | 8,849 | 21,584 |
| N561601 | GEN SCIENCES & TECHNOLOGY | Resource Management | Resource Planning | Regulation | 59% | 41% | 10,174 | 7,070 | 17,245 |
| N561602 | CARTOGRAPHIC SERVICES | Resource Management | Resource Planning | Regulation | 59% | 41% | 174,509 | 121,269 | 295,778 |
| N561603 | INTERNAL SCIENCE & TECH REQSTS | Resource Management | Resource Planning | Regulation | 59% | 41% | 32,153 | 22,344 | 54,497 |
| N561604 | EXTERNAL SCIENCE & TECH REQSTS | Resource Management | Resource Planning | Regulation | 59% | 41% | 8,039 | 5,587 | 13,626 |
| N561605 | SIMS | Resource Management | Resource Planning | Regulation | 59% | 41% | 9,873 | 6,861 | 16,734 |
| | | | Resource Planning | Management | 50% | 50% | 38,000 | 38,000 | 75,999 |



Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WWS07 | 2007 TOTAL (1) |
|----------|----------------------------------|----------------------|-------------------------|------------------------|------|------|-------------|-------------|----------------|
| N561606 | URBAN WATERSHED RESEARCH | Resource Management | Resource Planning | D | 100% | 0% | 164,092 | - | 164,092 |
| N561607 | PRESERVING MORTALITY RESEARCH | Resource Management | Resource Planning | D | 100% | 0% | 40,151 | - | 40,151 |
| N561608 | WRJA SUPPORT | Resource Management | Resource Planning | Management | 50% | 50% | 24,395 | 24,395 | 48,790 |
| N561609 | VEGETATION MANAGEMENT | Resource Management | Resource Planning | D | 100% | 0% | 8,454 | - | 8,454 |
| N561610 | EPS ENVIRONMENTAL END-STATES | Resource Management | Resource Planning | Management | 50% | 50% | 22,355 | 22,355 | 44,711 |
| N561611 | WEST NILE VIRUS MONITORING | Resource Management | Resource Planning | D | 100% | 0% | 11,836 | - | 11,836 |
| N620301 | MAINTAIN PUMP STATIONS | Field Operations | Drainage & Wastewater | S | 0% | 100% | - | 863,158 | 863,158 |
| N620401 | WASTEWATER INSPECTION | Field Operations | Drainage & Wastewater | S | 0% | 100% | - | 1,204,984 | 1,204,984 |
| N620402 | DRAINAGE INSPECTION | Field Operations | Drainage & Wastewater | D | 100% | 0% | 694,288 | - | 694,288 |
| N620501 | WASTEWATER CLEANING | Field Operations | Drainage & Wastewater | S | 0% | 100% | - | 2,113,724 | 2,113,724 |
| N620502 | DRAINAGE CLEANING | Field Operations | Drainage & Wastewater | D | 100% | 0% | 1,971,206 | - | 1,971,206 |
| N620702 | DRAINAGE REPAIR | Field Operations | Drainage & Wastewater | D | 100% | 0% | 60,694 | - | 60,694 |
| N620801 | DREDGING | Field Operations | Drainage & Wastewater | D | 100% | 0% | 122,406 | - | 122,406 |
| N620802 | LANDSCAPE - SPU PROPERTY | Field Operations | Drainage & Wastewater | D | 100% | 0% | 129,150 | - | 129,150 |
| N620901 | NON-CITY CUSTOMERS | Field Operations | Drainage & Wastewater | S | 0% | 100% | - | 191,262 | 191,262 |
| N632401 | FLEET MANAGEMENT | Field Operations | Field Support | FO DWV | 46% | 54% | 49,104 | - | 49,104 |
| N633110 | DWW PROGRAM MAINTNCC-PUMPING | Field Operations | Water Operation | S | 0% | 100% | - | 162,042 | 162,042 |
| N633111 | DWW EVENT DRIVEN REPAIR-PUMPING | Field Operations | Water Operation | S | 0% | 100% | - | 62,210 | 62,210 |
| N633207 | DWW PROGRAM MAINTNCC-TELEMETRY | Field Operations | Water Operation | S | 0% | 100% | - | 95,603 | 95,603 |
| N633208 | DWW EVENT DRIVEN REPR-TELEMETRY | Field Operations | Water Operation | S | 0% | 100% | - | 34,734 | 34,734 |
| N633307 | DWW PROGRAM MAINTNCC-ELECTRICAL | Field Operations | Water Operation | S | 0% | 100% | - | 84,879 | 84,879 |
| N633308 | DWW EVENT DRIVEN REPR-ELECTRICAL | Field Operations | Water Operation | S | 0% | 100% | - | 34,596 | 34,596 |
| N661194 | DEPARTMENT SUPPORT | Field Operations | Water Quality & Supply | D | 100% | 0% | 380 | - | 380 |
| N661195 | GENERAL EXPENSE | Field Operations | Water Quality & Supply | D | 100% | 0% | 37,412 | - | 37,412 |
| N661196 | GENERAL MANAGEMENT | Field Operations | Water Quality & Supply | D | 100% | 0% | 15,850 | - | 15,850 |
| N661197 | TRAINING | Field Operations | Water Quality & Supply | D | 100% | 0% | 6,863 | - | 6,863 |
| N661198 | SAFETY | Field Operations | Water Quality & Supply | D | 100% | 0% | 5,570 | - | 5,570 |
| N661199 | PERSONNEL | Field Operations | Water Quality & Supply | D | 100% | 0% | 3,129 | - | 3,129 |
| N661289 | CAPITAL PURCHASE | Field Operations | Water Quality & Supply | D | 100% | 0% | 1,271 | - | 1,271 |
| N670401 | ENV PROGRAM MANAGEMENT | Field Operations | Strategic Operations | Regulation | 59% | 41% | 8,770 | 6,095 | 14,865 |
| N670402 | ENV QUALITY ASSURANCE | Field Operations | Strategic Operations | Regulation | 59% | 41% | 4,385 | 3,047 | 7,432 |
| N670403 | HAZMAT SPILL RESPONSE | Field Operations | Strategic Operations | Regulation | 59% | 41% | 1,675 | 1,164 | 2,839 |
| N670404 | TECHNICAL SUPPORT | Field Operations | Strategic Operations | Regulation | 59% | 41% | 3,508 | 2,438 | 5,946 |
| N810102 | INTEREST PAYMENT - DWF | Debt Service | Interest | Model | 53% | 47% | 9,166,303 | 8,093,769 | 17,260,065 |
| N820102 | PRINCIPAL PAYMENT - DWF | Debt Service | Principal Payment | Model | 53% | 47% | 4,083,441 | 3,618,931 | 7,702,371 |
| N910102 | G&A CREDIT | G&A Credit | G&A Credit - Program | CIP | 51% | 49% | (2,152,575) | (2,076,452) | (4,229,027) |
| NN40025 | STREET SWEEPING | SPU General Expenses | General Expense | D | 100% | 0% | 71,750 | - | 71,750 |



Table C-3 (cont.)

| NS10198 | CORPS PERMIT REVIEWS LABOR CONTRACT ADJUST. | SPU General Expenses | General Expense | CIP | 49% | 51% | 44,382 | 42,743 | 87,125 |
|---------|--|--------------------------|-------------------------|--------|-----|-----|-----------|-----------|-----------|
| | 2007 PROPOSED ADDS | VARIES | VARIES | VARIES | | | 270,000 | 270,000 | |
| | General Administration | | | | | | 1,205,000 | 1,324,000 | 2,529,000 |
| N010102 | CENTRAL COST ALLOCATION - DWF | SPU General Expenses | General Expense | Labor | 46% | 54% | 2,127,236 | 2,485,337 | 4,612,573 |
| N010202 | CLAIMS-DWF | SPU General Expenses | General Expense | Labor | 46% | 54% | 279,243 | 326,251 | 605,494 |
| N010401 | TRAINING CENTER PROJECT | SPU General Expenses | General Expense | Labor | 46% | 54% | 34,272 | 40,041 | 74,313 |
| N010403 | CONTRACT DEVP & COMPET CENTER | SPU General Expenses | General Expense | Labor | 46% | 54% | 26,141 | 30,542 | 56,683 |
| N010408 | EMPLOYEE VOICE | SPU General Expenses | General Expense | Labor | 46% | 54% | 5,460 | 6,379 | 11,839 |
| N010409 | PROPERTY INSURANCE PREMIUM | SPU General Expenses | General Expense | Labor | 46% | 54% | 34,745 | 40,594 | 75,340 |
| N110194 | DEPARTMENT SUPPORT | Director's Office | Director's Office Admin | Labor | 46% | 54% | 707 | 826 | 1,532 |
| N110195 | GENERAL EXPENSE | Director's Office | Director's Office Admin | Labor | 46% | 54% | 29,108 | 34,008 | 63,116 |
| N110196 | GENERAL MANAGEMENT | Director's Office | Director's Office Admin | Labor | 46% | 54% | 45,597 | 53,273 | 98,870 |
| N110197 | TRAINING | Director's Office | Director's Office Admin | Labor | 46% | 54% | 2,553 | 2,983 | 5,536 |
| N110199 | PERSONNEL | Director's Office | Director's Office Admin | Labor | 46% | 54% | 151 | 176 | 327 |
| N120195 | GENERAL EXPENSE | Director's Office | Communications | Labor | 46% | 54% | 12,204 | 14,258 | 26,462 |
| N120196 | GENERAL MANAGEMENT | Director's Office | Communications | Labor | 46% | 54% | 9,014 | 10,531 | 19,545 |
| N120197 | TRAINING | Director's Office | Communications | Labor | 46% | 54% | 2,824 | 3,299 | 6,123 |
| N120199 | PERSONNEL | Director's Office | Communications | Labor | 46% | 54% | 328 | 384 | 712 |
| N120301 | INTERNAL COMMUNICATIONS | Director's Office | Communications | Labor | 46% | 54% | 2,632 | 3,075 | 5,707 |
| N120302 | PUBLIC INFORMATION | Director's Office | Communications | Labor | 46% | 54% | 9,304 | 10,870 | 20,175 |
| N120303 | MEDIA RELATIONS | Director's Office | Communications | Labor | 46% | 54% | 21,571 | 25,202 | 46,774 |
| N120306 | STRATEGIC MARKETING | Director's Office | Communications | Labor | 46% | 54% | 15,605 | 18,232 | 33,836 |
| N130194 | DEPARTMENT SUPPORT | Director's Office | Strategic Policy | Labor | 46% | 54% | 854 | 997 | 1,851 |
| N130195 | GENERAL EXPENSE | Director's Office | Strategic Policy | Labor | 46% | 54% | 6,211 | 7,257 | 13,469 |
| N130196 | GENERAL MANAGEMENT | Director's Office | Strategic Policy | Labor | 46% | 54% | 8,823 | 10,308 | 19,131 |
| N130197 | TRAINING | Director's Office | Strategic Policy | Labor | 46% | 54% | 1,815 | 2,120 | 3,935 |
| N130199 | PERSONNEL | Director's Office | Strategic Policy | Labor | 46% | 54% | 178 | 208 | 387 |
| N130501 | RISK MANAGEMENT | Director's Office | Strategic Policy | Labor | 46% | 54% | 18,596 | 21,727 | 40,323 |
| N130502 | ENVIRONMENTAL PERF SYSTEM | Director's Office | Strategic Policy | Labor | 46% | 54% | 21,503 | 25,123 | 46,626 |
| N130503 | BENCHMARKING | Director's Office | Strategic Policy | Labor | 46% | 54% | 17,292 | 20,203 | 37,495 |
| N130504 | AMC/OTHER CORP. PERFORMANCE | Director's Office | Strategic Policy | Labor | 46% | 54% | 13,513 | 15,788 | 29,302 |
| N130601 | POLICY/EXTL RELATIONS - GEN | Director's Office | Strategic Policy | Labor | 46% | 54% | 36,142 | 42,226 | 78,368 |
| N130603 | POLICY/EXTL RELATIONS - DWW | Director's Office | Strategic Policy | Labor | 46% | 54% | 85,201 | 99,544 | 184,745 |
| N130608 | SUSTAINABLE INFRASTRUCTURE | Director's Office | Strategic Policy | Labor | 46% | 54% | 25,171 | 29,408 | 54,578 |
| N210193 | SAFETY PROGRAM ADMINISTRATION | Finance & Administration | Branch Administration | Labor | 46% | 54% | 116,222 | 135,787 | 252,009 |
| N210194 | DEPARTMENT SUPPORT | Finance & Administration | Branch Administration | Labor | 46% | 54% | 7,402 | 8,648 | 16,050 |
| N210195 | GENERAL EXPENSE | Finance & Administration | Branch Administration | Labor | 46% | 54% | 41,564 | 48,561 | 90,124 |



Table C-3 (cont.)

| ACTIVITY | ACTIVITY DESCRIPTION | PROGRAM DESCRIPTION | SUB PROGRAM DESCRIPTION | COST ASSIGNMENT FACTOR | D% | WW% | DS07 | WW\$07 | 2007 TOTAL (1) |
|----------|---------------------------------|--------------------------|-------------------------|------------------------|-----|-----|---------|---------|----------------|
| N210196 | GENERAL MANAGEMENT | Finance & Administration | Branch Administration | Labor | 46% | 54% | 37,290 | 43,567 | 80,858 |
| N210197 | TRAINING | Finance & Administration | Branch Administration | Labor | 46% | 54% | 4,589 | 5,362 | 9,951 |
| N210198 | SAFETY | Finance & Administration | Branch Administration | Labor | 46% | 54% | 1,612 | 1,883 | 3,494 |
| N220194 | DEPARTMENT SUPPORT | Finance & Administration | Finance | Labor | 46% | 54% | 1,799 | 2,102 | 3,902 |
| N220195 | GENERAL EXPENSE | Finance & Administration | Finance | Labor | 46% | 54% | 27,016 | 31,564 | 58,580 |
| N220196 | GENERAL MANAGEMENT | Finance & Administration | Finance | Labor | 46% | 54% | 31,107 | 36,344 | 67,451 |
| N220197 | TRAINING | Finance & Administration | Finance | Labor | 46% | 54% | 8,688 | 10,151 | 18,839 |
| N220198 | SAFETY | Finance & Administration | Finance | Labor | 46% | 54% | 4,380 | 5,117 | 9,497 |
| N220199 | PERSONNEL | Finance & Administration | Finance | Labor | 46% | 54% | 5,399 | 6,308 | 11,706 |
| N220302 | FINANCIAL ANALYSIS | Finance & Administration | Finance | Labor | 46% | 54% | 31,492 | 36,793 | 68,285 |
| N220303 | BONDS SALE PREPARATION | Finance & Administration | Finance | Labor | 46% | 54% | 159 | 186 | 346 |
| N220308 | SPECIAL PROJECTS - DWF | Finance & Administration | Finance | Labor | 46% | 54% | 90,311 | 105,514 | 195,826 |
| N220401 | BUDGET PREPARATION | Finance & Administration | Finance | Labor | 46% | 54% | 40,537 | 47,361 | 87,897 |
| N220402 | BUDGET MONITORING | Finance & Administration | Finance | Labor | 46% | 54% | 42,119 | 49,210 | 91,329 |
| N220403 | SPECIAL PROJECTS | Finance & Administration | Finance | Labor | 46% | 54% | 1,051 | 1,228 | 2,278 |
| N220406 | Retro COLA Distribution | Finance & Administration | Finance | Labor | 46% | 54% | 121,936 | 142,463 | 264,400 |
| N220501 | INVOICING - O&M | Finance & Administration | Finance | Labor | 46% | 54% | 859 | 1,004 | 1,863 |
| N220502 | GRANTS - O&M | Finance & Administration | Finance | Labor | 46% | 54% | 12,486 | 14,588 | 27,074 |
| N220503 | CONSULTANT CONTRACTS - O&M | Finance & Administration | Finance | Labor | 46% | 54% | 45,227 | 52,840 | 98,067 |
| N220601 | ACCOUNTS RECEIVABLE | Finance & Administration | Finance | Labor | 46% | 54% | 54,666 | 63,869 | 118,535 |
| N220602 | ACCOUNTS PAYABLE | Finance & Administration | Finance | Labor | 46% | 54% | 60,405 | 70,574 | 130,980 |
| N220603 | COST ACCOUNTING | Finance & Administration | Finance | Labor | 46% | 54% | 32,813 | 38,337 | 71,150 |
| N220604 | FINANCIAL SYSTEM SUPPORT | Finance & Administration | Finance | Labor | 46% | 54% | 29,791 | 34,807 | 64,598 |
| N220605 | GENERAL LEDGER | Finance & Administration | Finance | Labor | 46% | 54% | 91,183 | 106,533 | 197,717 |
| N220607 | SUMMIT PRODUCTION | Finance & Administration | Finance | Labor | 46% | 54% | 185,965 | 217,270 | 403,235 |
| N220707 | PROPERTY MANAGEMENT - DWF | Finance & Administration | Finance | Labor | 46% | 54% | 31,625 | 36,949 | 68,574 |
| N220710 | MISC RECORDS/TITLE RESEARCH-DW | Finance & Administration | Finance | Labor | 46% | 54% | 14,116 | 16,492 | 30,607 |
| N230195 | GENERAL EXPENSE | Finance & Administration | Human Resources | Labor | 46% | 54% | 38,962 | 45,521 | 84,482 |
| N230196 | GENERAL MANAGEMENT | Finance & Administration | Human Resources | Labor | 46% | 54% | 32,907 | 38,446 | 71,353 |
| N230197 | TRAINING | Finance & Administration | Human Resources | Labor | 46% | 54% | 6,771 | 7,910 | 14,681 |
| N230198 | SAFETY | Finance & Administration | Human Resources | Labor | 46% | 54% | 3,252 | 3,800 | 7,052 |
| N230301 | DATA MANAGEMENT | Finance & Administration | Human Resources | Labor | 46% | 54% | 31,024 | 36,247 | 67,271 |
| N230302 | HR PLANNING & DEVELOPMENT | Finance & Administration | Human Resources | Labor | 46% | 54% | 6,871 | 8,027 | 14,898 |
| N230303 | HIRING & EMPLOYMENT PROCESS | Finance & Administration | Human Resources | Labor | 46% | 54% | 63,926 | 74,688 | 138,614 |
| N230304 | HR SVC & PROGRAM IMPLEMENTATION | Finance & Administration | Human Resources | Labor | 46% | 54% | 46,166 | 53,938 | 100,104 |
| N230401 | INTERNAL COMMUNICATION | Finance & Administration | Human Resources | Labor | 46% | 54% | 13,572 | 15,857 | 29,429 |
| N230402 | SUPERVISOR TRAINING | Finance & Administration | Human Resources | Labor | 46% | 54% | 9,627 | 11,247 | 20,874 |





Table C-3 (cont.)

| | | | | | | | | | |
|---------|---|--------------------------|------------------------|-------|-----|-----|---|---|---------------------------------|
| N230501 | LABOR RELATIONS | Finance & Administration | Human Resources | Labor | 46% | 54% | 18,357 | 21,447 | 39,805 |
| N230601 | Equal Opportunity Program | Finance & Administration | Human Resources | Labor | 46% | 54% | 17,274 | 20,182 | 37,455 |
| N230602 | EMPLOYEE RECOGNITION | Finance & Administration | Human Resources | Labor | 46% | 54% | 2,856 | 3,337 | 6,193 |
| N230701 | PAYROLL PROCESSING | Finance & Administration | Human Resources | Labor | 46% | 54% | 6,851 | 8,005 | 14,856 |
| N230702 | BENEFITS ADMIN | Finance & Administration | Human Resources | Labor | 46% | 54% | 7,533 | 8,802 | 16,335 |
| N230801 | TRAINING SERVICES | Finance & Administration | Human Resources | Labor | 46% | 54% | 41,472 | 48,454 | 89,926 |
| N230802 | LEADERSHIP TRAINING | Finance & Administration | Human Resources | Labor | 46% | 54% | 9,298 | 10,864 | 20,162 |
| N240194 | DEPARTMENT SUPPORT | Finance & Administration | Information Technology | Labor | 46% | 54% | 3,885 | 4,539 | 8,424 |
| N240195 | CONSOLIDATED SERVER ROOM | Finance & Administration | Information Technology | Labor | 46% | 54% | 151,529 | 177,038 | 328,567 |
| N240196 | GENERAL MANAGEMENT | Finance & Administration | Information Technology | Labor | 46% | 54% | 106,825 | 124,808 | 231,633 |
| N240197 | TRAINING | Finance & Administration | Information Technology | Labor | 46% | 54% | 45,123 | 52,720 | 97,843 |
| N240198 | SAFETY | Finance & Administration | Information Technology | Labor | 46% | 54% | 3,170 | 3,703 | 6,873 |
| N240199 | PERSONNEL | Finance & Administration | Information Technology | Labor | 46% | 54% | 25,103 | 29,329 | 54,432 |
| N240289 | CAPITAL PURCHASE | Finance & Administration | Information Technology | Labor | 46% | 54% | 3,328 | 3,888 | 7,216 |
| N240801 | GIS QUARTER SECTION MAPPING | Finance & Administration | Information Technology | Labor | 46% | 54% | 1,790 | 2,091 | 3,882 |
| N240802 | DRAINAGE & WASTEWATER GIS | Finance & Administration | Information Technology | Labor | 46% | 54% | 40,433 | 47,239 | 87,672 |
| N241301 | PERFORMANCE PLANNING & MANAGE | Finance & Administration | Information Technology | Labor | 46% | 54% | 22,738 | 26,566 | 49,304 |
| N241401 | SERVICE DESK | Finance & Administration | Information Technology | Labor | 46% | 54% | 51,259 | 59,887 | 111,146 |
| N241402 | SERVER ADMINISTRATION | Finance & Administration | Information Technology | Labor | 46% | 54% | 106,361 | 124,266 | 230,627 |
| N241403 | NETWORK ADMINISTRATION | Finance & Administration | Information Technology | Labor | 46% | 54% | 122,403 | 143,009 | 265,412 |
| N241404 | PRODUCTION SUPPORT | Finance & Administration | Information Technology | Labor | 46% | 54% | 97,523 | 113,940 | 211,463 |
| N241405 | DESKTOP SUPPORT | Finance & Administration | Information Technology | Labor | 46% | 54% | 65,744 | 76,811 | 142,555 |
| N241407 | OPERATIONAL SERVICES | Finance & Administration | Information Technology | Labor | 46% | 54% | 118,542 | 138,498 | 257,040 |
| N241501 | INTAKE/CUSTOMER LIAISON | Finance & Administration | Information Technology | Labor | 46% | 54% | 2,501 | 2,922 | 5,424 |
| N241502 | IMPLEMENTATION/USER SUPPORT | Finance & Administration | Information Technology | Labor | 46% | 54% | 6,125 | 7,156 | 13,280 |
| N241503 | WEB DESIGN/IMPLEMENTATION | Finance & Administration | Information Technology | Labor | 46% | 54% | 34,905 | 40,781 | 75,686 |
| N241507 | SEWER & DRAINAGE IT STOREFRONT | Finance & Administration | Information Technology | Labor | 46% | 54% | 4,680 | 5,467 | 10,147 |
| N241601 | SCOPING & CUSTOMER CONTACT | Finance & Administration | Information Technology | Labor | 46% | 54% | 30,670 | 35,833 | 66,503 |
| N241602 | APPLICATION DEVELOPMENT | Finance & Administration | Information Technology | Labor | 46% | 54% | 629 | 735 | 1,363 |
| N241604 | APPLICATION MAINTENANCE | Finance & Administration | Information Technology | Labor | 46% | 54% | 31,064 | 36,293 | 67,357 |
| N241605 | SEWER-DRAINAGE GIS DEVELOPMENT | Finance & Administration | Information Technology | Labor | 46% | 54% | 32,915 | 38,456 | 71,371 |
| N241701 | SEWER&DRAINAGE DATA MAINTENAN | Finance & Administration | Information Technology | Labor | 46% | 54% | 119,386 | 139,484 | 258,869 |
| N241703 | UTILITY DATA ADMINISTRATION | Finance & Administration | Information Technology | Labor | 46% | 54% | 13,140 | 15,352 | 28,491 |
| NN40028 | CONSOLIDATED SERVER ROOM | SPU General Expenses | General Expense | Labor | 46% | 54% | 36,082 | 42,156 | -78,237 |
| TOTAL | WITH REVISED ALLOCATION (LESS 2008 & 2009 EXPENSE SHIFT) NET 2007 OPERATING EXPENSE | | | | | | 38,844,936 (1,311,537) 37,533,399 | 155,811,666 1,311,537 157,123,203 | 194,445,598 - 194,445,598 |

- (1) All activities with a "Model" factor are calculated by the rates model and not directly based on the 2006 revised budget.
(2) The G&A Credit is calculated for 2007 based on proposed CIP spending and not directly based on the 2006 revised budget.
(3) Proposed new 2007 O&M expense which have not been assigned activities are included as a single lump sum for each line of business under direct expense. Details on expense found in Revenue Requirements section of this proposal.
(4) Expense for all other activities equals 2006 revised budget plus 2.5% inflation. Program and subprogram names are pre-reorg and may have since been changed.

APPENDIX D— PROJECTED 2007 WASTEWATER RATE

Overview of Wastewater Fee Structure

City of Seattle residents pay a single fee per one hundred cubic feet (ccf) of wastewater discharged into the City's wastewater system. This single fee is composed of two components, a treatment rate and a system rate, which are adopted through two distinct processes.

SPU Treatment Rate

Payments to King County² for wastewater treatment are the single largest component of both wastewater and total DWF operating expense. The inability to fully recover this expense through the wastewater rate can seriously impact DWF financial performance. To mitigate this risk the Council adopted Ordinance 121675 in 2004, providing for an annual adjustment to the treatment rate when there is a change in the underlying cost drivers. The formula for this adjustment is defined in the ordinance, allowing for the treatment rate to be adopted outside of a normal rates process. The formula is as follows:

Projected wastewater treatment expense/Projected annual wastewater volumes

X

A 16.5% multiplier (to recover revenue reductions and revenue taxes)

Projected treatment expense includes an adjustment for cash lags in the full recovery of treatment expense in years in which there is a rate increase.³ For the purposes of this calculation, treatment expense excludes the portion of budgeted treatment expense associated with the County's High Strength Industrial and Contaminated Stormwater Surcharges. These expenses are recovered directly from applicable customers and not through the wastewater direct service rate.

The City recovers wastewater expense exclusively through a volume based fee. However, the County charges a fixed rate per residential premise and a volume rate per unit of commercial sewage flow treated. Residential flows account for about 37 percent of total volumes (and therefore total City revenues). Charges for residential premises account for about 47 percent of total treatment expense paid to the County. Consequently, if the County treatment rate is held constant but Seattle wastewater volumes decline, the resulting decline in treatment expense will be less than the decrease in the City's wastewater revenues. Therefore, the annual pass-through mechanism provides for an increase in the treatment rate when volumes decline, even in the absence of a King County rate increase.

The multiplier provides for the payment of revenue taxes on increased revenues generated to pay additional treatment expense. It also includes an allowance for customers paying less than the full rate (i.e. low income credits) and non payments/delinquencies.

² King County treats over 99% of the City's sewage. The Southwest Suburban Sewer District treats the balance.

³ Revenues billed in December are typically collected in January. So, if we assume that wastewater rates increase on January 1, 2007, 2007 revenue will include 1 month of cash receipts at the 2006 rate (in January) and 11 months of cash receipts at the new 2007 rate. The adjustment increases revenue enough to account for this cash shortfall.



SPU System Rate

The system component of the SPU wastewater rate is proposed by the Executive via rate studies and adopted through a normal Council process. The system rate recovers all other operating expense, including operations and maintenance expense, capital financing expense (debt service and cash), and related revenue taxes. This component of the rate is also set to ensure that financial policy targets are met in the case that the revenue required to meet the targets exceeds the revenue required to recover operating expense (see Section II of this proposal for more detail).

Proposed 2007 Wastewater Rate

DWF financial performance and operating budgets presented in this rate study assume a 9.9 percent increase to the wastewater rate in 2007. As shown in Table D-1, this overall increase assumes no change in the 2006 system rate.

Table D-1
Proposed 2007 Wastewater Rate

| | 2006 | | 2007 |
|----------------|-------------|----|-------------|
| Treatment Rate | \$4.72 | \$ | 5.39 |
| System Rate | \$2.04 | \$ | 2.04 |
| | \$6.76 | \$ | 7.43 |
| % Change | | | 9.9% |

The change in the SPU treatment rate is required to fund an increase in 2007 treatment expense due to a proposed 10.7 percent increase in the King County treatment rate. Table D-2 presents the inputs underlying the calculation of the 2007 treatment rate.

Table D-2
2007 SPU Treatment Rate Calculation
(\$1,000's)

| | |
|--|---------|
| 2007 Treatment Expense (rates based) (1) | 98,546 |
| Revenue lags/leads (2) | 1,100 |
| Net Cash Treatment Expense | 99,646 |
| Multiplier (3) | 16.7% |
| Total Treatment Expense | 116,286 |
| Projected 2007 Volumes (100 ccf) | 21,590 |
| Treatment Rate per ccf (4) | 5.39 |

Table D-2 Notes:

- 1) Excludes high strength industrial surcharge component of King County treatment expense. This expense is charged directly to the applicable customers and not recovered through rates.
- 2) December revenues collected in January. When there is a rate increase, assumes one month cash at old rate, 11 months at new rate.
- 3) Recovers taxes and revenue lost to credits/non payment.
- 4) Per resolution, treatment rate equals treatment expense divided by projected volumes.

The SPU treatment rate calculation assumes an increase in the treatment multiplier from 16.5 percent to 16.7 percent. The 16.5 percent multiplier assumed that SPU could deduct wastewater revenue collected from other municipal departments from the tax base used to calculate City B&O taxes. Although the City has historically allowed municipal deductions, it recently clarified that no legislative mandate exists for this deduction and that it will no longer allow this deduction, effective January of 2006. A 0.2 percent increase in the tax multiplier will fund the additional taxes which must now be paid on municipal wastewater revenues.

The current proposal assumes an increase of \$3.6 million in 2007 wastewater system expense. The components of that increase are presented in Table D-3.

Table D-3
2007 Change in Wastewater System Expense
(\$1,000's)

| | |
|------------------------|-------|
| Base O&M (1) | (5) |
| Proposed Adds | 1,324 |
| Debt Service | 1,366 |
| Cash to CIP (2) | 867 |
| Total Expense Increase | 3,551 |

Table D-3 Notes:

- 1) \$0.9 million inflationary increase and reduction in G&A credit due to smaller CIP nearly offset \$1 million expense decrease (cost allocation from wastewater to drainage).
- 2) Increase required to meet 25 percent cash financing target.

Despite this increase in spending, direct service revenues generated by the 2006 system rate, combined with the use of cash reserves is sufficient to fund 2007 system expense while maintaining or exceeding financial policy targets. Table D-4 presents the Sources and Uses of system and treatment revenue/expense, assuming proposed rates and spending.

Table D-4
2007 Change in Wastewater System Expense
(\$1,000's)

| | System | Treatment | Total Wastewater |
|---------------------------------|---------------|----------------|------------------|
| SOURCES | | | |
| <i>Direct Service</i> | | | |
| Gross Revenue (1) | 44,044 | 116,370 | 160,414 |
| Less: Credit/Non Payment | (639) | (1,687) | (2,326) |
| Net Revenue | 43,405 | 114,683 | 158,088 |
| Less: leads/lags | - | (1,100) | (1,100) |
| Net Direct Service Cash Revenue | 43,405 | 113,583 | 156,988 |
| <i>Other Revenue</i> | | | |
| Other Operating | 3,107 | | |
| Other Non-Operating | 1,500 | | |
| SCL Reimbursement | 1,239 | | |
| Total Sources | 49,252 | 113,583 | 162,835 |
| USES | | | |
| O&M (2) | 26,007 | 98,546 | 124,552 |
| Taxes | 5,738 | 15,161 | 20,899 |
| Debt Service | 11,672 | | 11,672 |
| Cash Financing of CIP (25%) (3) | 5,475 | | 5,475 |
| Total Uses | 48,891 | 113,707 | 162,598 |
| SOURCES NET OF USES | 360 | (124) | 237 |

Table D-4 Notes:

- 1) Assumes treatment rate of 5.39 and system rate of 2.04 multiplied by projected volume.
- 2) Sum of O&M, taxes, debt service equal to wastewater allocation of 2007 proposed operating budget (see Table C-2).
- 3) 25% of wastewater CIP. Typically rate would be set to meet this target. In 2007 the wastewater contribution is projected to exceed 25% level. See discussion in following paragraph.

2007 proposed revenue net of expenses is roughly equal to that underlying the 2006 system rate adopted in 2003. Higher non-rates revenue, lower cash adjustments and debt service offset

higher O&M expense. Conversely, the 2006 system rate generated excess cash in 2006 due to higher than projected non-rates revenue and lower spending. This cash combined with cash windfalls in 2005 and 2006⁴ resulted in sewer cash balances which exceed required financial policy targets. The current proposal assumes that this excess cash will be used for additional CIP financing resulting in a total wastewater cash contribution to CIP of 36 percent in 2007. The 36% wastewater contribution augments the lower drainage contribution (20%), raising the total DWF contribution to 27% in 2006.

Table D-5
2007 Wastewater Cash Balance
(\$1,000's)

| | |
|-------------------|---------|
| Beginning | 9,512 |
| Source net of use | 237 |
| Other Adjustments | (161) |
| Cash Subtotal | 9,588 |
| Cash to CIP (1) | (2,409) |
| Ending Cash | 7,178 |

Table D-5 Notes:

1) Use of excess cash (over targeted ending balance) used to provide additional financing to CIP.
Total sewer financing of CIP equals 36%

⁴ Windfalls include a state tax reimbursement and delayed reimbursement of certain NOAA settlement related expense.



higher O&M expense. Conversely, the 2006 system rate generated excess cash in 2006 due to higher than projected non-rates revenue and lower spending. This cash combined with cash windfalls in 2005 and 2006⁴ resulted in sewer cash balances which exceed required financial policy targets. The current proposal assumes that this excess cash will be used for additional CIP financing resulting in a total wastewater cash contribution to CIP of 36 percent in 2007. The 36% wastewater contribution augments the lower drainage contribution (20%), raising the total DWF contribution to 27% in 2006.

Table D-5
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(\$1,000's)

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|-------------------|---------|
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Table D-5 Notes:

1) Use of excess cash (over targeted ending balance) used to provide additional financing to CIP.
Total sewer financing of CIP equals 36%

⁴ Windfalls include a state tax reimbursement and delayed reimbursement of certain NOAA settlement related expense.



Despite this increase in spending, direct service revenues generated by the 2006 system rate, combined with the use of cash reserves is sufficient to fund 2007 system expense while maintaining or exceeding financial policy targets. Table D-4 presents the Sources and Uses of system and treatment revenue/expense, assuming proposed rates and spending.

Table D-4
2007 Change in Wastewater System Expense
(\$1,000's)

| | System | Treatment | Total Wastewater |
|---------------------------------|---------------|----------------|------------------|
| SOURCES | | | |
| <i>Direct Service</i> | | | |
| Gross Revenue (1) | 44,044 | 116,370 | 160,414 |
| Less: Credit/Non Payment | (639) | (1,687) | (2,326) |
| Net Revenue | 43,405 | 114,683 | 158,088 |
| Less: leads/lags | - | (1,100) | (1,100) |
| Net Direct Service Cash Revenue | 43,405 | 113,583 | 156,988 |
| <i>Other Revenue</i> | | | |
| Other Operating | 3,107 | | |
| Other Non-Operating | 1,500 | | |
| SCL Reimbursement | 1,239 | | |
| Total Sources | 49,252 | 113,583 | 162,835 |
| USES | | | |
| O&M (2) | 26,007 | 98,546 | 124,552 |
| Taxes | 5,738 | 15,161 | 20,899 |
| Debt Service | 11,672 | | 11,672 |
| Cash Financing of CIP (25%) (3) | 5,475 | | 5,475 |
| Total Uses | 48,891 | 113,707 | 162,598 |
| SOURCES NET OF USES | 360 | (124) | 237 |

Table D-4 Notes:

- 1) Assumes treatment rate of 5.39 and system rate of 2.04 multiplied by projected volume.
- 2) Sum of O&M, taxes, debt service equal to wastewater allocation of 2007 proposed operating budget (see Table C-2).
- 3) 25% of wastewater CIP. Typically rate would be set to meet this target. In 2007 the wastewater contribution is projected to exceed 25% level. See discussion in following paragraph.

2007 proposed revenue net of expenses is roughly equal to that underlying the 2006 system rate adopted in 2003. Higher non-rates revenue, lower cash adjustments and debt service offset



City of Seattle

Gregory J. Nickels, Mayor

Office of the Mayor

June 27, 2006

Honorable Nick Licata
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Licata:

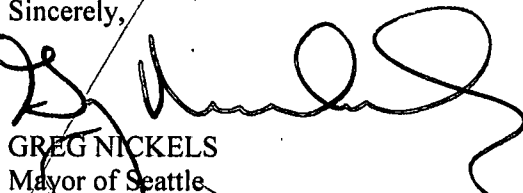
I am transmitting the 2007 Drainage Rate Study and associated legislation to implement the 2007 drainage rate increase. Under the proposed rates, a typical single family customer will pay about \$0.75 more per month for drainage service, while a business with heavy development on a one acre parcel will pay about \$12.61 more per month. Implementation of the new rates will increase drainage system revenues by \$3 million and will provide sufficient funding to meet drainage revenue requirements for 2007. The additional revenue will be used to cover increased costs and to fund new operating programs and capital projects, many of which are part of the Comprehensive Drainage Plan. Such projects include:

- Design of storm sewer improvements throughout the city, including those at Martin Luther King Way, Madison Valley, Meadowbrook, and N. 125th and Aurora Avenue N;
- Design of the Thornton Creek water quality channel;
- Continued construction of the High Point natural drainage system and design of the Venema Creek system;
- Development of an in-house drainage customer management system; and
- Development of non-rate incentives for on-site stormwater management through the Rainwise Stewardship Program.

With this rate increase, the Drainage and Wastewater Fund continues to meet all financial policy targets set by the Council. To offset the rate increase, the attached legislation also revises credits for qualifying low-income customers.

Thank you for your consideration of this legislation. Should you have questions, please contact Leanne Galati (4-0455) or Julia Veghte (4-7779).

Sincerely,



GREG NICKELS
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

600 Fourth Avenue, 7th Floor, P.O. Box 94749, Seattle, WA 98124-4749

Tel: (206) 684-4000, TDD: (206) 684-8811 Fax: (206) 684-5360, Email: mayors.office@seattle.gov

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ORDINANCE _____

AN ORDINANCE relating to drainage services of Seattle Public Utilities; amending Seattle Municipal Code Section 21.33.030 to adjust drainage rates; and amending Seattle Municipal Code Section 21.76.040 to adjust credits to low-income drainage customers accordingly.

WHEREAS, the rates for drainage services were last increased on January 1, 2006, as authorized by Ordinance 121639; and

WHEREAS, Seattle Public Utilities ("SPU") has developed a Comprehensive Drainage Plan ("CDP") which recommends operating programs and capital projects to reduce flooding, improve water quality, improve drainage along major arterials, and restore creek habitat affected by stormwater draining through creek systems; and

WHEREAS, the cost to implement CDP-recommended programs and projects in 2007 will result in increased annual expenses for debt service, cash financing of capital projects and operations; and

WHEREAS, a significant bond issuance will be needed during 2006 to finance a portion of the drainage capital improvement projects and that this issuance will further increase annual drainage expenses for debt service beginning in 2007; and

WHEREAS, SPU has completed a rate study showing that existing rates will not provide sufficient revenues to pay the costs of providing drainage services and pay debt service and that rate increases therefore are required; and

WHEREAS, credits for qualified low-income customers need to be revised to reflect an increase in drainage rates; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Subsection D of Seattle Municipal Code Section 21.33.030 is amended as follows:

SMC 21.33.030 Drainage service charges -- Schedule -- Exemptions.

* * *



D. The rate categories and the corresponding annual drainage service charges are as follows:

| | ((Effective)) | ((Effective)) | Effective | <u>Effective</u> |
|---------------------------|-------------------------------------|-------------------------------------|---------------------|----------------------------|
| | ((Jan. 1, 2004)) | ((Jan. 1, 2005)) | Jan. 1, 2006 | <u>Jan. 1, 2007</u> |
| Single-family residential | (((\$110.36 per parcel)) | (((\$121.64 per parcel)) | \$136.10 per parcel | <u>\$145.09 per parcel</u> |
| Open space (0 -- 2%) | (((\$11.33 per acre)) | (((\$39.88 per acre)) | 173.77 per acre | <u>191.51 per acre</u> |

All Other Properties Classification:

| | | | | |
|-----------------|-----------------------------------|-------------------------------------|-------------------|--------------------------|
| 1. (0 -- 15%) | (((\$194.54 per acre)) | (((\$243.48 per acre)) | 302.19 per acre | <u>332.65 per acre</u> |
| 2. (16 -- 35%) | (((\$222.60 per acre)) | (((\$404.02 per acre)) | 501.84 per acre | <u>551.57 per acre</u> |
| 3. (36 -- 65%) | (((\$81.47 per acre)) | (((\$730.89 per acre)) | 908.01 per acre | <u>1,000.82 per acre</u> |
| 4. (66 -- 85%) | (((\$758.95 per acre)) | (((\$953.02 per acre)) | 1,183.79 per acre | <u>1,303.79 per acre</u> |
| 5. (86 -- 100%) | (((\$944.43 per acre)) | (((\$1,182.89 per acre)) | 1,468.73 per acre | <u>1,620.01 per acre</u> |

SPU shall provide a 10% reduction in drainage rates for properties containing new or remodeled commercial buildings that, after July 27, 2003, install and utilize rainwater harvesting systems that meet the performance requirement that the systems are sized to use or infiltrate the amount of rain that falls on the roofs of such buildings during a one year, ~~((24-hour))~~ 24-hour storm event. A system that involves indoor uses of rainwater must be permitted by Seattle-King County Department of Health ~~((in order))~~ to qualify for the rate reduction. A system that relies solely on the capture and indoor use of rainwater shall qualify for the drainage rate reduction only if the system is sized to meet the performance requirement stated above. Qualifying for the drainage rate reduction does not relieve the property owner from the obligation to comply with applicable stormwater and drainage code requirements for the buildings and site.

* * *

Section 2. Paragraph 2 of Subsection A of Seattle Municipal Code 21.76.040 is amended as follows:

21.76.040 Utility low income rate assistance.

* * *

2. Drainage. Eligible recipients residing inside the City of Seattle shall receive the following credits for drainage services based on dwelling type:

| | ((Effective)) | ((Effective)) | Effective | <u>Effective</u> |
|---------------|--|---|--------------------|-------------------------|
| | ((January 1, 2004)) | ((January 1, 2005)) | January 1, 2006 | <u>January 1, 2007</u> |
| Single-family | ((<u>\$4.60 per month</u>)) | ((<u>\$ 5.07 per month</u>)) | \$5.67 per month | <u>\$6.05 per month</u> |
| Duplex | ((<u>2.30 per month</u>)) | ((<u>2.54 per month</u>)) | 2.84 per month all | <u>3.02 per month</u> |
| Multifamily | ((<u>0.49 per month</u>)) | ((<u>0.54 per month</u>)) | 0.61 per month | <u>0.65 per month</u> |

* * *

Section 3. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, then such provision or provisions shall be null and severed from the rest of this ordinance with respect to the particular person or circumstance. The offending provision with respect to all other persons and all other circumstances, as well as all other provisions of this ordinance, shall remain valid and enforceable.

1 Section 4. This ordinance shall take effect and be in force thirty (30) days from and
2 after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10)
3 days after presentation, it shall take effect as provided by Seattle Municipal Code Section
4 1.04.020.

5 Passed by the City Council the ____ day of _____, 2006, and signed by me in
6 open session in authentication of its passage this ____ day of _____, 2006.

7
8
9 _____
President _____ of the City Council

10 Approved by me this ____ day of _____, 2006.

11
12 _____
Gregory J. Nickels, Mayor

13 Filed by me this ____ day of _____, 2006.

14
15 _____
City Clerk

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17 (Seal)
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FISCAL NOTE FOR NON-CAPITAL PROJECTS

| Department: | Contact Person/Phone: | DOF Analyst/Phone: |
|--------------------------|-----------------------|---------------------|
| Seattle Public Utilities | Leanne Galati 4-0455 | John McCoy 615-0768 |

Legislation Title:

AN ORDINANCE relating to drainage services of Seattle Public Utilities; amending Seattle Municipal Code Section 21.33.030 to adjust drainage rates; and amending Seattle Municipal Code Section 21.76.040 to adjust credits to low-income drainage customers.

• **Summary of the Legislation:**

This ordinance adopts drainage rates for commercial and residential customers in 2007. It also adjusts the low-income assistance credits for drainage customers.

• **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

Drainage rates were last raised on January 1, 2006. The cost of drainage services is supported by rates charged to drainage customers. These rates are set in accordance with financial policies adopted by the City Council. Development of new drainage infrastructure over the past year has increased the costs of drainage utility services. Planned infrastructure investment and new operating programs to be implemented during the next year under the Comprehensive Drainage Plan will further increase costs. A rate increase in 2007 is required to pay these additional costs.

A complete description of the Executive proposed 2007 rate package is contained in the 2007 Drainage Rate Study.

• *Please check one of the following:*

☐ **This legislation does not have any financial implications.** *(Stop here and delete the remainder of this document prior to saving and printing.)*

☒ **This legislation has financial implications.** *(Please complete all relevant sections that follow.)*

Appropriations: *This table should reflect appropriations that are a direct result of this legislation. In the event that the project/ programs associated with this ordinance have appropriations that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below.*

None.

Anticipated Revenue/Reimbursement: Resulting From This Legislation: *This table should reflect revenues/reimbursements that are a direct result of this legislation. In the event that the issues/projects associated with this ordinance/resolution have revenues or reimbursements that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below the table.*

| Fund Name and Number | Department | Revenue Source | 2006 Revenue | 2007 Revenue |
|------------------------------------|--------------------------|----------------|--------------|--------------------|
| Drainage and Wastewater Fund 44010 | Seattle Public Utilities | Drainage Rates | \$0 | \$2,981,892 |
| TOTAL | | | \$0 | \$2,981,892 |

Notes: Revenue in 2007 shows the difference between the revenue received under 2006 rates and revenue received under the proposed rates. The detail of revenue increases by rate type appears in the 2007 Drainage Rate Proposal.

Total Regular Positions Created Or Abrogated Through This Legislation, Including FTE Impact: *This table should only reflect the actual number of positions created by this legislation. In the event that positions have been, or will be, created as a result of previous or future legislation or budget actions, please provide details in the Notes section below the table.*

None.

Spending/Cash Flow: *This table should be completed only in those cases where part or all of the funds authorized by this legislation will be spent in a different year than when they were appropriated (e.g., as in the case of certain grants and capital projects). Details surrounding spending that will occur in future years should be provided in the Notes section below the table.*

Not Applicable.

- **What is the financial cost of not implementing the legislation?** *(Estimate the costs to the City of not implementing the legislation, including estimated costs to maintain or expand an existing facility or the cost avoidance due to replacement of an existing facility, potential conflicts with regulatory requirements, or other potential costs if the legislation is not implemented.)*

If this proposal is not implemented, the financial performance of the Drainage and Wastewater Fund (DWF) will suffer and Seattle Public Utilities may have to reduce levels of service.

- **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** *(Include any potential alternatives to the proposed legislation, such as reducing fee-supported activities, identifying outside funding sources for fee-supported activities, etc.)*

Not raising the rates at this time would result in DWF failing to recover the cost of its operations and failing to meet the financial policies. In addition, increased General Subfund utility tax revenue results from the rate increase. This increased tax revenue would not occur if the rates are not raised.

- **Is the legislation subject to public hearing requirements:** *(If yes, what public hearings have been held to date, and/or what plans are in place to hold a public hearing(s) in the future.)*

No.

- **Other Issues** *(including long-term implications of the legislation):*

Please list attachments to the fiscal note below:

Attachment 1 -- 2007 Drainage Rate Study



Seattle Public Utilities 2007 Drainage Rate Study

JUNE 2006

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| V. | Rate Design | V-1 |
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| | Appendix D – 2007 Wastewater Rate | D-1 |

I. EXECUTIVE SUMMARY

The Drainage and Wastewater Utility provides wastewater and stormwater management services to residents and businesses in the City of Seattle. It is supported almost entirely by utility fee revenue. For drainage, SPU charges City of Seattle property owners fees based on property characteristics contributing to stormwater run-off and collects these fees via the King County property tax collection system. For wastewater, SPU collects charges via the SPU combined utility bill. The wastewater rate consists of a system component, set to recover SPU expenses and a treatment component, set to recover payments to King County and Southwest Suburban Sewer District, whose facilities treat the wastewater conveyed by SPU's system.

For 2007, SPU proposes increasing drainage rates by an average of 8.1 percent while maintaining the current system component of the wastewater rate. The proposed drainage increase is a "maintenance" rate intended to support increased 2007 spending, without any modifications to the existing drainage structure. The Executive will present final drainage and rate incentive recommendations to City Council this summer which propose significant changes to the drainage rate and cost allocation structure for 2008 and beyond. This proposal does not assume any of these proposed changes except some minor 2007 funding for preparatory work on certain reform initiatives (see Section V- Rate Design).

The drainage rate increase supports a proposed \$3.0 million increase in the drainage revenue requirement. Table I-1 presents the monthly impact of the proposed fee increases on drainage bills for residential and select commercial customers.

Table I-1
Proposed 2007 Revenue Requirement and Impact on Typical Drainage Bills

| | <i>2006</i> | <i>2007 Proposed</i> Change from <i>'06</i> | |
|-------------------------------|--------------|---|-------------|
| Direct Service Revenue | \$36,968,350 | \$39,950,242 | \$2,981,892 |
| Typical Monthly Bills | | | |
| Residential | \$11.34 | \$12.09 | \$0.75 |
| Convenience Store (0.2 acres) | \$24.48 | \$27.00 | \$2.52 |
| Supermarket (2.87 acres) | \$351.27 | \$387.45 | \$36.18 |

Three factors are driving the proposed 2007 drainage rate increases:

- ◆ **Increase in Debt Service.** In 2006, SPU will issue new Drainage and Wastewater Fund (DWF) revenue bonds, which will increase the drainage revenue requirement by \$2.2 million beginning in 2007, when the first associated interest and principal payments will be due.

These bonds are expected to fund a portion¹ of drainage capital improvements between December 2006 and May 2008. Major drainage capital programs to be funded in 2007 include:

- Construction and design of storm sewer improvements throughout the City including at Martin Luther King Way, Meadowbrook,, Madison Valley (2007 Design), and N. 125th and Aurora Avenue N (2007 Design).
 - Construction of the Thornton Creek water quality channel
 - Construction of the Highpoint natural drainage system and design of the Venema Creek system
 - Development of an in-house drainage customer data management system
- ◆ **Base Operations and Maintenance (O&M) Expense.** Operations and Maintenance expense for current programs increases by \$2.1 million. About half -- \$1 million -- is due to changes made to labor-based allocation factors to more accurately reflect recent staff effort. This had the effect of shifting costs from wastewater to drainage. The total amount of the shift is actually \$2.3 million, but per SPU policy regarding intra-fund changes, the shift is capped at \$1.0 million in 2007, with the remainder to be applied in later years. Inflation accounts for most of the remaining increase -- \$756,000.
- ◆ **New Operating Expense.** SPU is proposing a \$1.4 million increase in the revenue requirement to fund expanded and/or new operations programs, including stewardship and technical assistance programs, water quality monitoring, drainage billing data management, business inspections, an apprenticeship program for field staff, natural drainage system maintenance, and facilities rent increases. Many of these additions are in support of the recommendations presented in the Comprehensive Drainage Plan adopted in 2005.

Three factors help mitigate the proposed rate increase:

- ◆ **A Reduction in Cash Financing of the CIP.** The proposed drainage rate increase assumes a \$1.5 million decrease in drainage cash financing of the CIP from 2006 to 2007. This reflects the cash available after the rate is set at the minimum level required to meet the binding constraint of generally positive net income. Even though this reduces the cash financing of the drainage portion of the CIP to 20 percent in 2007, SPU projects that the Drainage and Wastewater Fund (DWF) as a whole will be at 27 percent, exceeding the fund target.
- ◆ **Use of Cash Balances.** The proposed 2007 rates are set to produce lower net cash revenue than 2006, reducing the revenue requirement by \$0.5 million. Revenue generated by rates is used to fund current operating expenses, maintain a cash balance as a safeguard against unexpected expense, and to fund a portion of the current capital program. A rate may be set generate positive, negative or constant net cash revenue. Net cash revenue is equal to total

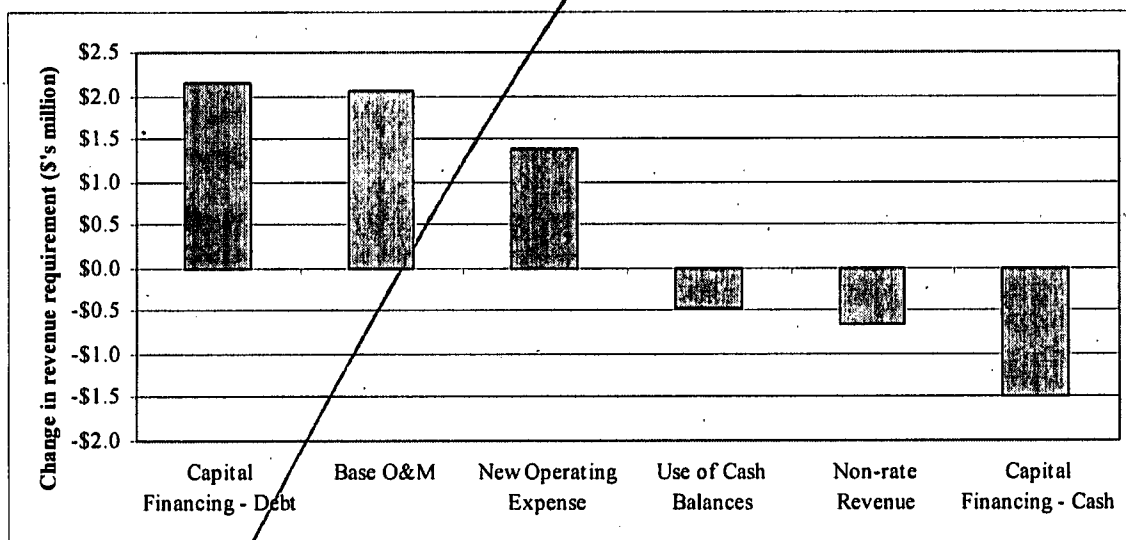
¹ Current revenues (cash) fund the balance of capital improvements.

cash revenue less total cash expense². A change in net cash revenue from one rate period to the next will impact the revenue requirement.

- ◆ **Non-Rates Revenue.** An increase in non-rates revenues is expected to reduce the rates revenue requirement by \$660,000 in 2007. Increased reimbursements for Sound Transit Light Rail and Seattle Housing Authority Integrated Drainage Plan capital expense are the primary sources.

Figure I-1 displays these factors:

**Figure I-1
2007 Drainage Rate Drivers**



The table on the following page shows projected financial performance of DWF under this proposal. The financial policy objectives for DWF are discussed in Section II (Financial Policies) of this proposal.

Wastewater Treatment Rate

SPU expects to increase the treatment component of the wastewater rate in 2007 to fund a proposed 10.7 percent increase in the King County treatment rate. This increase will result in a 9.9 percent overall increase to the wastewater rate. The increase in the treatment component of the rate is not part of this rate study, as Ordinance 121675 provides a pass-through mechanism for its adjustment. However, all Drainage and Wastewater Fund (DWF) financial performance data presented in this rate study assume the 9.9 percent overall increase. Appendix D provides further detail on the pass through mechanism and 2007 wastewater funding requirements.

² This differs from net income which includes non-cash items such as depreciation and amortization and excludes cash expenses such as debt service principal payments.

Table I-2
Drainage and Wastewater Fund Financial Summary

| | <u>2006 Projected</u> | <u>2007 Proposed</u> |
|--|-----------------------|----------------------|
| Operating Revenue | | |
| Wastewater Service | | |
| Wastewater Rate Revenue | 144,873,728 | 158,087,701 |
| High Strength Industrial Surcharge | 1,230,000 | 1,349,765 |
| Drainage Rate Revenue | 36,968,350 | 39,950,242 |
| Other Charges | | |
| Permit Fees | 1,424,652 | 1,424,652 |
| Other | 836,756 | 857,325 |
| Total Operating Revenue: | <u>185,333,487</u> | <u>201,669,686</u> |
| Operating Expenses | | |
| Operating and Maintenance Expenses | | |
| Wastewater Treatment | 90,255,476 | 99,895,675 |
| Other Operating Expenses | 39,568,082 | 44,007,041 |
| Taxes Other Than City Taxes | 2,185,279 | 2,341,920 |
| Other Expenses | | |
| City Taxes | 21,798,864 | 23,742,167 |
| Depreciation | 18,612,178 | 20,606,178 |
| Total Operating Expenses: | <u>172,419,880</u> | <u>190,592,981</u> |
| Net Operating Income: | <u>12,913,606</u> | <u>11,076,705</u> |
| Other Income (Expenses) | | |
| Investment and Interest Income | 986,949 | 1,544,285 |
| Interest Expenses and Amortization of | | |
| Debt Issue Costs and Net Discount | (13,685,741) | (15,749,362) |
| Other Income, Net | - | - |
| Total Other Income (Expenses): | <u>(12,698,792)</u> | <u>(14,205,077)</u> |
| Capital and Operating fees, Contributions, and Grants | 2,550,206 | 3,131,247 |
| Net Income (Loss) | <u>2,765,020</u> | <u>2,875</u> |
| Revenue Available for Debt Service | 54,311,598 | 56,969,335 |
| Debt Service | 21,635,880 | 24,873,522 |
| Debt Service Coverage | 2.51 | 2.29 |

II. DRAINAGE AND WASTEWATER FUND FINANCIAL OVERVIEW

The City of Seattle operates an integrated storm and sanitary sewerage system. Although funded through separate rate structures, the City's stormwater ("drainage") and sanitary sewer ("wastewater") systems share common infrastructure, administrative and maintenance services, debt financing, and financial budgeting and reporting systems.

SPU finances the acquisition, operation, and maintenance of Seattle's drainage and wastewater system through the Drainage and Wastewater Enterprise Fund (DWF). An enterprise fund functions like a self-supporting business which must generate operating revenues, predominantly through user charges (or "rates"), which are sufficient to cover all operating costs and meet financial policy targets. Separate drainage and wastewater service charges, or rates, are the source of most DWF revenues. Non-rate revenues include permit fee revenue, operating grants, capital grants, and contributions in aid of construction (CIAC). These non-rate revenues reduce the amount of revenue that must be recovered through rates.

Financial policies provide a guiding framework for Drainage and Wastewater finances. The policies help determine how much revenue DWF must collect from its customers each year to remain financially healthy while meeting its financial obligations. In addition, financial policies:

- ◆ shape the financial profile that DWF presents to lenders and other members of the financial community;
- ◆ establish DWF's exposure to financial risk; and
- ◆ allocate DWF's costs between current and future ratepayers.

Table II-1 summarizes DWF's financial policies, discusses their importance, and identifies the financial policy targets.

TABLE II-1
Summary of DWF Financial Policies

| Parameter | Importance | DWF Target |
|-----------------------|---|--|
| Debt Service Coverage | A higher debt service coverage ratio means that more "excess" revenue is available after debt payments are made. This reduces financial risk and provides more flexibility to respond to unanticipated needs or revenue shortfalls. | 1.80 times |
| Debt-to-Asset Ratio | This ratio provides an indicator of how reliant an organization is on debt to finance its infrastructure. A high ratio suggests less flexibility, as a greater portion of each year's revenues is used to repay debt. | No more than 70% |
| Cash-Financing of CIP | This policy 1) helps to prevent a rapid increase in debt levels, and 2) limits the escalation in the debt-to-assets ratio. | 25% (four-year rolling average) by 2007 |
| Year-End Cash Balance | Cash reserves are important to ensure bills are paid on time, and they can be used to respond to unanticipated needs or revenue shortfalls. | One month wastewater treatment expense by 2007 |

| Parameter | Importance | DWF Target |
|--------------------|---|--------------------------------|
| Net Income | Positive net income is a contingency against projection errors and uncertainties regarding revenues. It is also a signal to bond rating agencies that the City is committed to establishing drainage fees that cover costs. | Generally Positive |
| Variable Rate Debt | A cap on variable rate debt balances the advantages of lower interest costs with the risk of unexpected increases in interest rates. | No more than 15% of total debt |

Drainage and Wastewater Fund financial policies were adopted by City Council in 2003 by Resolution 30612. To mitigate the impact of these requirements on rates, the resolution provided for a gradual increase in the achievement of cash-related targets, with the expectation that all targets would be met by 2007. Table II-2 presents the interim targets established by the Resolution.

Table II-2
DWF 2004-2006 Interim Financial Policy Targets

| Policy | 2004 | 2005 | 2006 | 2007+ (1) |
|--------------------------|--------|---------|---------|-----------|
| Cash Balance Year End | 7.0 M | \$6.0 M | \$6.7 M | Varies M |
| <i>1 month treatment</i> | 7.0 M | \$7.5 M | \$7.5 M | \$8.4 M |
| Cash Financing of CIP | 11.5 % | 14.0 % | 17.6 % | 25.0 % |

Table II-2 Notes:

(1) 2007+ Cash Balance target is equal to one month wastewater treatment expense. One month actual and projected expense is presented above as a point of reference.

Table II-3 presents DWF actual and projected performance of financial policy targets in between 2004 and 2007.

Table II-3
DWF Financial Policy Performance 2004-2007

| Policy | Target | 2004 Actual | 2005 Actual | 2006 Projected | 2007 Proposed |
|-----------------------|-----------------------------|-------------|-------------|----------------|---------------|
| Net Income | Generally Positive | (\$5.0) M | \$1.3 M | \$2.8 M | \$0.0 M |
| Debt Service Coverage | 1.8x | 2.19 x | 2.73 x | 2.51 x | 2.29 x |
| Cash Balance Year End | 1 Month Treatment Treatment | 7.7 M | \$8.9 M | \$10.5 M | \$8.3 M |
| Cash Financing of CIP | 25% | 14.8 % | 24.6 % | 25.0 % | 27.3 % |
| Debt-to-Asset Ratio | <=70% | 52% % | 51% % | 57 % | 57 % |
| Variable Rate Debt | <=15% | 0 % | 0 % | 0 % | 0 % |

DWF exceeded all interim targets in 2004 and 2005 and expects to meet or exceed 2006 interim and 2007 adopted financial policy targets. In addition, DWF has exceeded or is projected to exceed the debt service coverage targets presented to financial rating agencies at the time of the 2006 DWF revenue bond issue. The next DWF revenue bond issue is scheduled for September 2006. The fund's positive financial performance may result in an increase to at least one of DWF's bond ratings.

Financial policy targets are directed toward overall DWF financial performance. No formal, separate policy targets have been adopted for the drainage program or for the wastewater program. In theory, each line of business would contribute equally to meeting the DWF financial targets. That is, both drainage and wastewater would: a) finance 25% (or the applicable interim target) of its respective CIP program with cash; and b) pay a share of the DWF year end cash balance target equal to its proportional share of total DWF operating expenses. In practice, however, SPU may use financial targets to balance revenue requirements between wastewater and drainage. The table below provides a look at each line of business' cash balance and cash financing of the CIP under the current rate proposal assumptions. The wastewater contributions assume the treatment rate increase proposed in Appendix D.

TABLE II-4
DWF Cash Financing and Cash Balance Summary
By Line of Business

| (in 1,000's) | 2005 Actual | 2006 Projected | 2007 Projected |
|---------------------------|-------------|----------------|----------------|
| Drainage | | | |
| Year End Cash Balance* | \$1.1 | \$1.0 | \$1.1 |
| Cash Financing of CIP\$\$ | \$5.4 | \$6.2 | \$4.9 |
| % of Drainage CIP** | 26% | 24% | 20% |
| Wastewater | | | |
| Year End Cash Balance* | \$7.8 | \$9.5 | \$7.2 |
| Cash Financing of CIP\$\$ | \$4.6 | \$4.6 | \$7.9 |
| % of WW CIP** | 21% | 26% | 36% |
| Fund | | | |
| Year End Cash Balance* | \$8.9 | \$10.5 | \$8.3 |
| Cash Financing of CIP\$\$ | \$10.0 | \$10.8 | \$12.8 |
| DWF CIP | \$42.4 | \$43.3 | \$47.0 |
| % of DWF CIP** | 24% | 25% | 27% |

Table II-4 Notes:

* Cash balance is forecast by line of business for financial planning purposes. The Drainage and Wastewater Operating Fund does not separate cash transactions by line of business. Therefore, line of business "actual" YE Cash is estimated based on service revenues and estimated expense allocations.

** Includes financing from rate revenue, capital grants, and other contributions in aid of construction



III. REVENUE REQUIREMENTS

The revenue requirement is the minimum amount of operating revenue required to simultaneously meeting cash funding requirements and financial policy targets related to net income, cash balances, cash financing of the CIP, and debt service coverage. The component requiring the greatest amount of revenue generation (cash expenses or one of the financial policy requirements) is termed the “binding constraint”. The rates revenue requirement is equal to the total revenue requirement required to meet the binding constraint, less any non-rates revenues. Drainage service fees (or “rates revenues”) typically account for over 92% of drainage revenues. Non-rate drainage revenues include permit fees, miscellaneous operating revenues, interest income, operating grants, capital grants, and contributions in aid of construction (CIAC). Assuming constant demand, rate increases are required to fund increases in the revenue requirement from one rate setting period to the next.

Table III-1 summarizes the components of change in the drainage revenue requirement from 2006 to 2007.

Table III-1
Components of the Change in the Drainage Revenue Requirement³

| (\$1,000's) | Revenue Requirement | | \$ Change | % Change |
|--|---------------------|----------------|----------------|--------------|
| | 2006 | 2007 | | |
| Expense | | | | |
| Operations and Maintenance Expense (O&M) | | | | |
| Base O&M | 18,577 | 20,634 | 2,056 | 5.6% |
| New Operating Expense | - | 1,385 | 1,385 | 3.7% |
| Total | 18,577 | 22,018 | 3,441 | 9.3% |
| Capital Financing | | | | |
| Cash | 7,157 | 5,677 | (1,481) | -4.0% |
| Debt Service | 13,019 | 15,171 | 2,151 | 5.8% |
| Total | 20,177 | 20,847 | 670 | 1.8% |
| Total Revenue Requirement | 38,754 | 42,866 | 4,111 | 11.1% |
| Other Funding Sources | | | | |
| Non-Rates Revenue | (2,468) | (3,129) | (661) | -1.8% |
| Cash Balance | 682 | 214 | (468) | -1.3% |
| Total | (1,786) | (2,915) | (1,129) | -3.1% |
| Net Rates Rev Requirement | 36,968 | 39,950 | 2,982 | 8.1% |

³ All line items include the tax impact associated with increasing or reducing the revenue requirement. For example, the 2007 change in new operating expense is \$1.2 million while the change in the new operating expense revenue requirement presented in the Table III-1 is \$1.4 million. The difference of \$0.2 million is equal to the revenue taxes which must be paid on the additional revenue required to fund an additional \$1.2 million in operating expense.

The top section of Table III-1 presents the components of expense which make up the total revenue requirement. The bottom section of the table presents other sources of funding which reduce the amount of expense which must be recovered through direct service rates. The total revenue requirement increases by 11.1 percent from 2006 to 2007. However, the additional non-rates revenues and existing cash balances are used to fund 3.1 percent of this increase, reducing the increase in the rates revenue requirement to 8.1 percent.

Below is a more detailed description of the components of change in the revenue requirement.

Operations and Maintenance Expense (O&M)

The drainage O&M revenue requirement includes a portion of DWF shared administrative expense, as well as direct drainage operating expense associated with running a stormwater program (i.e. regulatory oversight, community outreach and education, etc.) and maintaining storm sewer system infrastructure.

Table III-2 presents proposed 2007 O&M spending increases by source.

Table III-2
Proposed Drainage Operating and Maintenance Expenditures

| (\$1,000's) | 2007 Increase |
|--|---------------|
| Base O&M | |
| Drainage/Wastewater Allocation Revisions | 1,000 |
| Change in G&A Credit | 33 |
| Inflation | 756 |
| Taxes | 267 |
| Change in Revenue Requirement | 2,056 |
| New O&M | |
| Stewardship, Technical Assistance, and Partnership Program | 256 |
| Water Quality Monitoring Program | 200 |
| Drainage Rate Billing Data Management | 170 |
| Inspections: Business, Stormwater Facility & Illicit Connections | 150 |
| Apprenticeship Program | 150 |
| Natural Drainage System Maintenance | 130 |
| City Central - Key Tower Rent | 149 |
| Taxes | 180 |
| Change in Revenue Requirement | 1,385 |
| Total Change in O&M | 3,441 |

Base O&M Expense

The base O&M for 2007 is assumed to equal the spending required to support operations and maintenance functions budgeted under the 2006 revised budget. Base O&M does not include debt service which is discussed under capital financing.

Under this proposal, base O&M increases by \$2.1 million. Four factors drive this increase. A new allocation of O&M expenses between drainage and wastewater shifts \$1 million in 2007 to drainage (see below). General inflation adds \$0.8 million. A reduction in the G&A credit due to reduced 2007 CIP spending⁴ adds \$33,000. The increase in revenue taxes associated with the overall change in base O&M adds \$0.3 million.

Allocation Revision in Detail: Operating expenses are budgeted for the DWF as a whole and not by line of business (drainage or wastewater). Consequently, operating expenses must be assigned to each line of business in order to establish separate revenue requirements for rate-setting purposes. SPU has developed a series of factors to assign cost, by budget activity, to drainage and to wastewater.

The DWF budgeted O&M expenses include both line-of-business-specific expenses (i.e. water quality monitoring or wastewater treatment), as well as shared administrative and business support expense. Shared expenses are assigned to each line of business based on prior period actual direct labor expense or on management estimate (where labor expense is not appropriate). Appendix C provides more detailed information on the cost assignment process.

As part of the current rate study, SPU reviewed the existing labor-based cost assignment factors and reset them based on 2005 actual spending. While some branches saw increases in the wastewater share, the net shift was toward drainage.

The primary factors underlying this shift in spending include:

- ◆ a significant increase in engineering labor expense on drainage CIP projects due to the implementation of the Comprehensive Drainage Plan. Engineering branch administration and support is based on direct CIP labor expense for the branch.
- ◆ increased 2005 spending on maintenance of storm sewer infrastructure (relative to spending on sewer infrastructure) resulting in a greater drainage share of field operations administration in 2006
- ◆ a decline in labor expense on drainage capital projects, resulting in a smaller drainage share of the general and administrative credit (which is an offset to O&M expense)
- ◆ the recent focus on the development of the Wastewater System Plan, resulting in a reduction in the drainage share of Science and Sustainability spending

⁴ The G&A credit is operating overhead (i.e. human resources, information technology, etc.) on capital projects. This credit reduces expense charged to the operating budget and reallocates it to capital expense. The budgeted G&A credit is based on adopted spending.

Table III-3 page presents the 2006 cost assignment changes by branch.

Table III-3
Change in Drainage Share of DWF Base O&M Spending
 (\$1,000s)

| Program | Total DWF | Drainage 2006-Base | Drainage 2006-Revised | Change |
|--------------------------|------------------|---------------------------|------------------------------|---------------|
| Customer Service | 6,507 | 200 | 128 | (72) |
| Director's Office | 1,341 | 888 | 938 | 50 |
| Engineering Services | 3,020 | 1,708 | 2,638 | 930 |
| Field Operations | 12,190 | 4,513 | 5,020 | 507 |
| Finance & Administration | 6,198 | 2,473 | 2,830 | 356 |
| G&A Credit | (4,700) | (2,713) | (2,379) | 334 |
| Science & Sustainability | 7,159 | 5,825 | 5,645 | (180) |
| SPU General Expenses* | 7,692 | 3,175 | 3,528 | 354 |
| Total Drainage | 39,407 | 16,069 | 18,348 | 2,280 |

This change in allocation increases the drainage share of O&M expenses by \$2.3 million, and reduces the wastewater share by a corresponding amount. SPU policy caps intra-fund changes at \$1 million per fund per year, and any change in excess of this amount is carried forward to the next year(s). This policy assists in smoothing budgetary impacts of significant cost assignment shifts which may be the result of temporary spending anomalies. SPU recommends applying this same policy to revisions in cost assignment between drainage and wastewater. Therefore, this rate proposal assumes that \$1 million of the total \$2.3 million change will be applied in 2007. The additional \$1.3 million will be netted against other cost assignment revisions in 2008.

More detail on the specific allocation shifts can be found in Appendix C, particularly Table C-1.

New Operations and Maintenance Expense

The 2007 proposed drainage rates support \$1.2 million in spending on expanded and/or new programs (plus \$0.2 million in associated taxes). Many of these additions are in support of the recommendations presented in the Comprehensive Drainage Plan adopted in 2005. Table III-4 presents a summary of proposed new expense by line item.

Table III-4
Proposed 2007 New Drainage Operations and Maintenance Expense

| Drainage Adjustment | Description | 2007 |
|--|--|--------------------|
| Stewardship, Technical Assistance, and Partnership Program | Meets Council initiative to develop incentives for on-site stormwater management. | \$256,000 |
| Water Quality Monitoring Program | Water Quality Monitoring Program to meet Corporate Stormwater NPDES compliance requirements. | \$200,000 |
| Drainage Rate Billing Data Management | Project management and technical oversight of drainage billing data management at SPU (\$80K); Modification of Drainage Billing System (on King County mainframe) to accommodate proposed rate structure changes (\$40K); Increase in administration fee paid to King County for drainage billing and collections. Fee is revenue based so increases with rate increase (\$50K). | \$170,000 |
| Inspections: Business, Stormwater Facility & Illicit Connections | Inspections to meet partial Corporate Stormwater NPDES compliance requirements related to business, stormwater facility and illicit connections inspections. | \$150,000 |
| Drainage and Wastewater Apprenticeship Program | Establish and operate an apprenticeship program for drainage and wastewater (DWW) field workers. | \$150,000 |
| Natural Drainage System Maintenance | O&M for Natural Drainage Systems to assure functioning infrastructure of channel and landscape used at SEA Streets, Broadview, High Point and Pinehurst. | \$130,000 |
| City Central - Key Tower Rent | Anticipated drainage share of SPU Key Tower rent increase. | \$149,000 |
| TOTAL DRAINAGE | | \$1,205,000 |

Capital Financing Expense

DWF funds capital projects through a combination of cash (from direct service and non-rates revenue) and debt financing (revenue bonds). Major drainage capital programs to be funded in 2007 include:

- ◆ Construction and design of storm sewer improvements throughout the City including at Martin Luther King Way, Meadowbrook, Madison Valley (2007 Design), and N. 125th and Aurora Avenue N (2007 Design)
- ◆ Construction of the Thornton Creek water quality channel
- ◆ Construction of the Highpoint natural drainage system and design of the Venema Creek system
- ◆ Development of an in-house drainage billing management system

Change in Debt Service

SPU expects to issue approximately \$49 million in new DWF revenue bonds in September 2006. DWF debt service is expected to increase by \$3.3 million in 2007 as the first principal and interest payments on the 2006 revenue bond issue come due. The drainage portion of this new debt is projected at \$2.0 million and increases the revenue requirement by \$2.2 million, including taxes.

Change in CIP Cash Financing (Rate Reduction)

In 2003 Council established, via resolution, a 25 percent CIP cash financing target for the Drainage and Wastewater Fund. The resolution provided for a gradual increase in the achievement of this target, providing interim targets for 2004 through 2006. SPU expects to exceed both the 2006 interim and 2007 adopted CIP cash financing targets, with 25 percent cash financing in 2006 (interim target equals 18 percent) and 27 percent in 2007.

As further discussed in “Section II-Drainage and Wastewater Fund Financial Overview”, financial policy targets are directed toward overall DWF financial performance. No formal, separate policy targets have been adopted for the drainage program or for the wastewater program. In theory, each line of business would contribute equally to meeting the DWF financial targets, with both drainage and wastewater financing 25% (or the applicable interim target) of its respective CIP program with cash. In practice, however, SPU may use financial targets to balance revenue requirements between wastewater and drainage.

Under the current proposal, drainage cash financing of the CIP is projected to decrease by \$1.5 million in 2007. Table III-4 presents the drivers underlying this decrease.

Table III-4
Change in Drainage Cash Financing of the CIP

| (\$1,000's) | 2007 Change in CIP Cash Financing |
|--|--|
| Change in CIP Spending ('06 to '07) | (88) |
| Reduced Cash Contribution (24% to 20%) | (1,200) |
| Change in Revenue Taxes | (192) |
| Total Change from 2006 | (1,481) |

Note: For 2006, this assumes \$25.5M in CIP spending (90 percent accomplishment of the 2006 Revised DWF CIP Spending Plan). For 2007, this assumes \$25.1M in CIP spending (90 percent accomplishment of Proposed 2007 CIP).

In 2006, SPU expects to finance 24 percent of its drainage CIP program with cash. Assuming this same percentage were applied to 2007 spending, the cash contribution would decrease by \$88,000 as 2007 CIP spending is projected to be slightly lower than 2006 spending.

In order to minimize the drainage rate increase, SPU proposes to reduce drainage cash financing to 20 percent in 2007. This level of drainage cash financing sets the rate at the minimum level required to meet the binding constraint of generally positive net income. Assuming 20 percent drainage cash financing, SPU projects that the Drainage and Wastewater Fund will finance 27 percent of 2007 DWF CIP spending with cash, exceeding the 25 percent adopted policy target.

Use of Cash Balances (Rate Reduction)

Revenue generated by rates is used to fund current operating expenses, maintain a cash balance as a safeguard against unexpected expense, and to fund a portion of the current capital program. A rate may be set generate positive, negative or constant net cash revenue. Net cash revenue is equal to total cash revenue less total cash expense. This differs from net income which includes non-cash items such as depreciation and amortization and excludes cash expenses such as debt service principal payments. A change in net cash revenue from one rate period to the next will impact the revenue requirement. An increase in total net cash revenue will drive a rate/revenue increase while a decrease will reduce the rate/revenue requirement.

The proposed 2007 rates are set to reduce net cash revenue by \$0.5 million, as presented in Table III-5. This reduction in net cash revenue will reduce the overall drainage revenue requirement by 1.3 percent.

Table III-5
Change in Drainage Net Cash Revenue

| (\$1,000s) | 2006 | 2007 |
|--|-------------|-------------|
| Beginning Cash Balance-Actual | 1,063 | 960 |
| Beginning Cash Balance-Adjusted | 366 | 960 |
| Ending Cash Balance | 960 | 1,146 |
| Net Cash Revenue minus Adjusted Beginning Balance) | 594 | 186 |
| Change in Net Cash Revenue ('07 minus '06) | | (408) |
| Change in Revenue Taxes | | (61) |
| Net Change to Revenue Requirement | | (468) |

In 2006, the drainage rate plus other revenue sources produced enough cash to fund expenses plus add \$0.6 million to cash balances. This change in net revenue is calculated by subtracting an adjusted 2006 beginning cash balance from the 2006 ending cash balance. The 2006 beginning cash balance is adjusted to account for a \$0.7 million accounting anomaly which temporarily inflated the actual beginning balance but was unrelated to actual operating cash.

In 2007, net cash revenue equals \$0.2 million or \$0.4 million less than 2006 net revenue. Including the associated reduction in taxes, drainage rates must generate \$0.5 million less in revenue in 2007 to fund operating expenses and achieve a targeted \$1.1 million ending cash balance⁵.

Non-Rate Revenue (Rate Reduction)

Non-rate revenue is projected to increase by \$0.7 million⁶ from 2006 to 2007. This increase will reduce the amount to be recovered through rates by 1.8 percent. Non-rate revenue includes permit fees, operating and capital grants, contributions in aid of construction (CIAC), interest income and other miscellaneous revenues and capital contributions presented below.

The primary source of this increase is due to reimbursements (CIAC) for capital expense associated with the Sound Transit Light Rail and Seattle Housing Authority (SHA) Integrated Drainage Plan projects. A small increase in operating grants and interest income is also anticipated.

⁵ As described in Section II-Drainage and Wastewater Fund Financial Overview, the DWF targeted ending cash balance is equal to one month of wastewater treatment expense, or \$12.8 million in 2007. The 2007 drainage share of the DWF target equals 14 percent of the total which equals its share of total 2007 DWF proposed operating expense (excluding taxes and debt service).

⁶ Includes associated tax increase

IV. COST ALLOCATION

Once the revenue requirement is set, these costs must be allocated to different customer classes.⁷ Items driven by similar factors are grouped into cost classifications, which are allocated between customer classes based on defined customer characteristics. This chapter of the rate study describes the classifications and customer characteristics. It concludes with a presentation of the 2007 drainage cost of service for each customer class. The total cost of service is equal to the drainage revenue requirement.

The current rate study does not propose any changes to the cost allocation methodology used in the 2005-2006 rates process.

Cost Classifications and Allocation Factors

Drainage costs are grouped into four cost classifications:

- 1) Service Costs;
- 2) Customer Costs;
- 3) Capital & Other Costs; and
- 4) Taxes.

Service Costs

Items in the service cost classification are associated with managing stormwater run-off volumes and their impact on the aquatic environment. These costs include infrastructure maintenance and repair (pipes, culverts, detention systems, etc.), regulatory oversight, water quality monitoring, and support services. In 2007 proposed Service Costs total \$18.4 million, or 46 percent of total drainage line of business expense.

The share of service costs borne by residential customers has decreased over the last three years. From 1999 and 2003, a portion of service cost related to habitat programs and landslide mitigation was allocated exclusively to the residential customer class, with the balance allocated among all drainage customer classes based on flow. In 2004, the City determined that all Service Costs should be allocated between customer classes based on flow. That same year, SPU began to increase the percentage of operating expense allocated based on flow, thereby reducing the portion of expense borne exclusively by residential customers. The gradual re-allocation of all service expense using a flow basis was completed in 2006.

⁷ A customer class is a group of customers that places a unique cost on the utility or is administratively easier to serve as a group. Drainage has one residential customer class and six commercial customer classes.

Customer Costs

Customer Costs include billing administration and customer service expense. These expenses are allocated by parcel, as they are driven by the number of customers served rather than by property characteristics. Proposed Customer Costs total \$0.8 million in 2007. These amounts are about 2 percent of total expenses in the drainage line of business.

- ◆ **King County Charges for Drainage Billing System (DBS) Administration.** King County administers billing and collections of the drainage fee for the City of Seattle. The drainage fee appears as a line item (“SWM” or Surface Water Management fee) on semi-annual King County property tax statements. Drainage Billing System (DBS) records are also housed on the King County mainframe. King County charges an annual administrative fee for billing, collections, reporting, and data administration support.
- ◆ **SPU Customer Data Management.** Although DBS is housed on the King County mainframe, SPU is responsible for updating customer records. SPU currently utilizes King County reports as the basis for customer data updates. However, in 2007, SPU will begin the development of an on-site drainage customer data repository which it will maintain in house using various data sources⁸.
- ◆ **SPU Customer Service Support.** SPU is responsible for responding to drainage-related customer inquiries, and administering the drainage low-income utility credit. Consequently, internal customer service expenses are included in the Customer Cost classification.

Capital & Other Costs

Capital & Other Costs includes debt service payments and any other cash requirements necessary to support current operations and financial policy targets, such as cash financing of the CIP. Capital & Other expenses total \$15.6 million in 2007, representing 39 percent of total drainage expense respectively. Capital & Other Costs are allocated among customer classes based on flow.

Taxes

Assuming the proposed rate increases, taxes on drainage revenue (City B&O and State and other taxes) are projected to total \$5.2 million in 2007. This represents approximately 13 percent of total expenses in the drainage line of business. Taxes are allocated among the customer classes based on each class’ respective share of total cost, after allocating all other costs.

Table IV-1 summarizes the total expense for each cost classification group in 2007. This table also delineates the allocators used to assign the costs from each classification to the different customer classes.

⁸ Included in new O&M expense in Section III of this report.

Table IV-1
Drainage Cost Classification Summary

| Cost Classification | Allocator (1) | 2007 Cost | % of Total Cost |
|----------------------------|----------------------|----------------------|------------------------|
| Service | Flow | 18,418,203 | 46.1% |
| Customer | Parcels | 773,003 | 1.9% |
| Taxes | % of Total Cost | 5,185,289 | 13.0% |
| Capital & Other | Flow | 15,573,747 | 39.0% |
| Total | | \$ 39,950,242 | 100% |

Table IV-2 Notes:

- 1) The "Allocator" is the customer characteristic or other measure used to allocate expense among customer classes.

Customer Characteristics by Class

Drainage customers belong to one of two broad classes: residential (single family and duplex) and commercial. Commercial customers are further divided into six rate classes that correspond to different levels of development, as measured by the percentage of impervious surface on the tax parcel. A description of each customer characteristic follows the table.

Table IV-2
Drainage Customer Characteristics by Class

| Customer Class | Percent Impervious | Parcel Count | Acreage | Run-off Coefficient | Total Flow |
|-----------------------|---------------------------|---------------------|----------------|----------------------------|-------------------|
| Residential | 36-65 | 140,149 | 19,712 | 0.57 | 11,186 |
| Commercial | | 56,286 | 18,944 | | 11,263 |
| Open Space | 0-2 | 131 | 1,201 | 0.11 | 130 |
| Undeveloped | 0-15 | 8,671 | 5,696 | 0.19 | 1,054 |
| Light | 16-35 | 131 | 417 | 0.31 | 130 |
| Moderate | 36-65 | 479 | 1,242 | 0.57 | 705 |
| Heavy | 66-85 | 1,291 | 1,080 | 0.74 | 797 |
| Very Heavy | 86-100 | 45,583 | 9,308 | 0.91 | 8,447 |
| Total | | 196,435 | 38,655 | | 22,449 |

Table IV-2 Notes:

Parcel and acreage data is from drainage billing system records as of January 2006. This data was utilized for 2006 billings by King County.

Percent Impervious: The percentage of the parcel area that is covered by impervious surface (any hard or impermeable surface that is not green, grassy, growing vegetation or landscaped). Examples of impervious surfaces are pavement, blacktop, rooftops, parking lots, or patios. Impervious surface is used in the calculation of the run-off coefficient assigned to each customer class.

Number of Parcels: The Number of Parcels is the number of King County tax parcels within Seattle city limits.

Acreage: The total parcel area and is used in the calculation of the total flow by customer class.

Run-off Coefficient: The percentage of precipitation falling on a parcel that is expected to enter the drainage system as runoff. The run-off coefficient is calculated based on the concept that 95 percent of precipitation falling on impervious surface will flow into the drainage system, but only 10 percent of precipitation falling on pervious surface flows into the drainage system. The run-off coefficient is used in the calculation of total flow.

Total Flow: Equal to total acreage multiplied by the applicable run-off coefficient. This calculation approximates stormwater run-off that flows off the property into the public drainage system. Total flow is used to allocate the majority of drainage costs among the customer classes.

Cost of Service by Customer Class

Table IV-3 shows how 2007 proposed drainage costs by cost classification are allocated among the customer classes.

**Table IV-3
Drainage Cost of Service Summary 2007**

| Customer Class | Service | Customer | Taxes | Capital & Other | Total Cost | Percent of Rev Req |
|----------------|----------------------|-------------------|---------------------|----------------------|----------------------|--------------------|
| Residential | 9,177,815 | 551,509 | 2,608,644 | 7,760,419 | 20,098,386 | 50.3% |
| Commercial | 9,240,388 | 221,494 | 2,576,645 | 7,813,328 | 19,851,856 | 49.7% |
| Open Space | 106,890 | 516 | 29,501 | 90,382 | 227,288 | 0.6% |
| Undeveloped | 864,501 | 34,122 | 243,061 | 730,990 | 1,872,675 | 4.7% |
| Light | 107,038 | 516 | 29,541 | 90,507 | 227,601 | 0.6% |
| Moderate | 578,145 | 1,885 | 159,428 | 488,858 | 1,228,315 | 3.1% |
| Heavy | 653,771 | 5,080 | 180,722 | 552,804 | 1,392,377 | 3.5% |
| Very Heavy | 6,930,043 | 179,376 | 1,934,393 | 5,859,787 | 14,903,600 | 37.3% |
| Total | \$ 18,418,203 | \$ 773,003 | \$ 5,185,289 | \$ 15,573,747 | \$ 39,950,242 | 100.0% |

Based on the above cost-of-service analysis, residential and commercial rates will fund an almost equal amount of the 2007 revenue requirement.

V. RATE DESIGN

Rate design is the last step in the rate setting process, wherein the structure and level of the rates are determined. For 2007, SPU is not proposing any changes to the structure of the rates but is proposing changes to the level of the rates based on the changes in the revenue requirements. SPU expects to offer a comprehensive rate redesign proposal in the coming months, which, if approved, may be built into 2008 rates and beyond.

Current Rate Design

All properties in Seattle, except city streets and state highways, are charged a drainage service fee. Docks and other similar properties, which rest over natural water bodies, are also exempted. To simplify billing and hold down administrative costs, all single-family homes and duplexes are assumed to be moderately impervious and pay a flat fee based on an average parcel size. All other properties have been assigned to one of the other six categories and are charged based on percent impervious area and actual parcel size. The open space category is reserved for parcels included on the Mayor's Open Space Map (primarily City greenbelts).

King County administers billing and collections of the drainage fee for the City of Seattle. The drainage fee appears as a line item ("SWM" or Surface Water Management fee) on semi-annual King County property tax statements.

Revenue Requirement and Proposed Rate Increase

As described in the Section III (Revenue Requirements), the amount of revenue that needs to be generated from the drainage rates will increase from \$37 million in 2006 to \$41.4 million in 2007. The table below summarizes the allocation of the drainage revenue requirement by drainage customer classes.

Table V-1
Drainage Rates/Revenue Requirement

| Customer Class | 2006 | 2007 |
|--------------------|---------------------|---------------------|
| Residential | \$18,853,737 | \$20,098,386 |
| Commercial | \$18,114,613 | \$19,851,856 |
| Open Space | \$206,238 | \$227,288 |
| Undeveloped | \$1,602,957 | \$1,872,675 |
| Light | \$207,169 | \$227,601 |
| Moderate | \$1,044,739 | \$1,228,315 |
| Heavy | \$1,325,592 | \$1,392,377 |
| Very Heavy | \$13,727,919 | \$14,903,600 |
| Total | \$36,968,350 | \$39,950,242 |

Proposed Drainage Rates

Table V-2 presents proposed monthly drainage rates by rate class for 2007.

Table V-2
2007 Proposed Monthly Drainage Rates

| Class (% impervious) | 2006 Adopted | 2007 (Proposed) | Change from '06 | % Increase |
|--------------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| Residential, per parcel | \$11.34 | \$12.09 | \$0.75 | 6.6% |
| Commercial, per acre | | | | |
| Open Space (0-2%) | \$14.48 | \$15.96 | \$1.48 | 10.2% |
| Undeveloped (0-15%) | \$25.18 | \$27.72 | \$2.54 | 10.1% |
| Light (16-35%) | \$41.82 | \$45.96 | \$4.14 | 9.9% |
| Moderate (36-65%) | \$75.67 | \$83.40 | \$7.73 | 10.2% |
| Heavy (66-85%) | \$98.65 | \$108.65 | \$10.00 | 10.1% |
| Very Heavy (86-100%) | \$122.39 | \$135.00 | \$12.61 | 10.3% |

Table V-2 Notes:

- 1) All rates represent monthly charges. Actual billing is on a bi-annual cycle.

Table V-3 presents sample bills for different types of drainage customers, using the proposed rates.

Table V-3
2007 Proposed Monthly Drainage Bills

| | Single Family Residence | Convenience Store (0.2 acres) | Supermarket (2.87 acres) |
|------|------------------------------------|--|-------------------------------------|
| 2006 | \$11.34 | \$24.48 | \$351.27 |
| 2007 | \$12.09 | \$27.00 | \$387.45 |

Drainage Fee Discounts and Credits

Rainwater Harvesting Discount

SPU offers a 10 percent reduction in the drainage rates for any new or remodeled commercial building that utilizes a qualifying rainwater harvesting system. The rainwater harvesting system must be sized to use or infiltrate the amount of rain that falls on the roof of the building during a one-year, 24-hour storm event in order to qualify for the 10 percent discount. Those systems that involve indoor uses of rainwater must be permitted by Seattle-King County Department of Health in order to qualify for the rate reduction. Systems that rely solely on the capture and indoor use of rainwater will qualify for the reduction provided the system is sized to meet the performance requirement. Qualifying for the 10 percent reduction does not relieve the property owner of having to meet the applicable stormwater and drainage code requirements for the building and site. SPU is not proposing to change this program.

Low Income Utility Credit

The City assists qualified low-income customers with their drainage bills by providing a 50 percent credit. Qualified low-income customers receive this credit on their combined utility bill or, when no combined utility bill is received, on their City Light Bill or as a credit voucher. The latter options are typically applicable to renters who pay drainage, wastewater, and water utility fees indirectly as part of their rental payment.

For 2007, SPU is proposing to increase the amount of the credit consistent with the increase in the drainage fees. This increase will ensure that the amount of the credit continues to be 50 percent of the drainage bill.

**Table V-4
Drainage Low Income Utility Credit (Monthly)**

| | 2006 Adopted | 2007 Proposed |
|---------------|---------------------|----------------------|
| Single Family | \$5.67 | \$6.05 |
| Duplex | \$2.84 | \$3.02 |
| Multifamily | \$0.61 | \$0.65 |

Drainage Fee and Cost Allocation Structure Alternatives

In 2003, SPU initiated a thorough review of the drainage fee structure, identifying issues to be further addressed in the 2004 Drainage Rate Study. On November 22, 2004, the City Council adopted Resolution 30720 setting out a work plan and timeline for SPU to deliver to the Council by the first quarter of 2006 final recommendations for changes to the drainage rate structure and potential rate and non-rate incentives. Achievement of greater customer equity through a more nuanced drainage rate design and allocation of costs is a high priority of the Mayor and the City Council, and is a driving force behind this effort.

Resolution 30720 directs SPU to provide recommendations for non-rate incentives (regulatory and stewardship incentives such as technical assistance), rate incentives, rate design (cost allocation, rate structure) and billing system requirements. The resolution specifies that the rate design portion of the assessment address:

- Waterfront property fees
- Houseboat/pier fees
- Drainage fees to partially cover costs of combined sewer overflows
- A tiered or otherwise varied residential rate structure.
- Rate incentives for commercial and residential ratepayers installing qualified flow and water quality mitigation technologies on their properties.
- Right-of-way services and fees
- Revisions to current cost allocation structure.

The Council established intermediate steps in this process, the first of which was for SPU to provide by June 30, 2005, an analysis to the Council that would present options and recommendations on drainage cost allocation and rate structure alternatives, and both rate and non-rate incentives for customers to cost effectively manage stormwater runoff from their properties. This analysis was transmitted to the Council on July 11, 2005.

Based on feedback from the Mayor and Council on the 2005 analysis, the Executive further refined its recommendations for drainage rates and incentive options. The Executive expects to present final recommendations ("2006 Drainage Rate and Incentive Methodologies Report") in the summer of 2006.

We expect to recommend a phased approach to implementing these changes. The drainage rates proposed in this rate study are "maintenance rates" to cover changes in the 2007 revenue requirement, but do not include any of the proposed changes to rate allocation or design methodologies. In 2008, we expect to be able to implement the recommended cost allocation and rate design changes and certain non-rate incentive programs. In 2009, SPU expects to be in a position to fully implement the drainage rate credit program.

Operating and capital expenses for 2007 do include some minor funding to for preparatory work on these reform initiatives, as presented in the "2006 Drainage Rate and Incentive Methodologies Report." Table V-5 below summarizes these expenses.

Table V-5
Proposed 2007 Expense for the New Drainage Rate Design and Incentives

| | Description | 2007 Proposed |
|--|---|---------------|
| Operating and Maintenance Expense | | |
| Stewardship, Technical Assistance, and Partnership Program | Costs include program development, marketing, educational materials, workshops training sessions, and a suite of subsidized products for customers. Also includes technical assistance in support of stewardship program. | 256,000 |
| Drainage Rate Billing Data Management | Program management for the development of drainage customer data requirements, billing system modifications (on King County system), and increased King County administration fee. | 170,000 |
| Capital Expense | | |
| Non-Rate Incentives: Rain Catcher Program | Implementation of customer-based strategies throughout targeted basins to achieve flow reductions goals. | 200,000 |
| Data Development and Management | Development of new customer billing database and rate credit data tracking/management system. | 1,100,000 |

APPENDIX D— PROJECTED 2007 WASTEWATER RATE

Overview of Wastewater Fee Structure

City of Seattle residents pay a single fee per one hundred cubic feet (ccf) of wastewater discharged into the City's wastewater system. This single fee is composed of two components, a treatment rate and a system rate, which are adopted through two distinct processes.

SPU Treatment Rate

Payments to King County² for wastewater treatment are the single largest component of both wastewater and total DWF operating expense. The inability to fully recover this expense through the wastewater rate can seriously impact DWF financial performance. To mitigate this risk the Council adopted Ordinance 121675 in 2004, providing for an annual adjustment to the treatment rate when there is a change in the underlying cost drivers. The formula for this adjustment is defined in the ordinance, allowing for the treatment rate to be adopted outside of a normal rates process. The formula is as follows:

Projected wastewater treatment expense/Projected annual wastewater volumes

X

A 16.5% multiplier (to recover revenue reductions and revenue taxes)

Projected treatment expense includes an adjustment for cash lags in the full recovery of treatment expense in years in which there is a rate increase.³ For the purposes of this calculation, treatment expense excludes the portion of budgeted treatment expense associated with the County's High Strength Industrial and Contaminated Stormwater Surcharges. These expenses are recovered directly from applicable customers and not through the wastewater direct service rate.

The City recovers wastewater expense exclusively through a volume based fee. However, the County charges a fixed rate per residential premise and a volume rate per unit of commercial sewage flow treated. Residential flows account for about 37 percent of total volumes (and therefore total City revenues). Charges for residential premises account for about 47 percent of total treatment expense paid to the County. Consequently, if the County treatment rate is held constant but Seattle wastewater volumes decline, the resulting decline in treatment expense will be less than the decrease in the City's wastewater revenues. Therefore, the annual pass-through mechanism provides for an increase in the treatment rate when volumes decline, even in the absence of a King County rate increase.

The multiplier provides for the payment of revenue taxes on increased revenues generated to pay additional treatment expense. It also includes an allowance for customers paying less than the full rate (i.e. low income credits) and non payments/delinquencies.

² King County treats over 99% of the City's sewage. The Southwest Suburban Sewer District treats the balance.

³ Revenues billed in December are typically collected in January. So, if we assume that wastewater rates increase on January 1, 2007, 2007 revenue will include 1 month of cash receipts at the 2006 rate (in January) and 11 months of cash receipts at the new 2007 rate. The adjustment increases revenue enough to account for this cash shortfall.



SPU System Rate

The system component of the SPU wastewater rate is proposed by the Executive via rate studies and adopted through a normal Council process. The system rate recovers all other operating expense, including operations and maintenance expense, capital financing expense (debt service and cash), and related revenue taxes. This component of the rate is also set to ensure that financial policy targets are met in the case that the revenue required to meet the targets exceeds the revenue required to recover operating expense (see Section II of this proposal for more detail).

Proposed 2007 Wastewater Rate

DWF financial performance and operating budgets presented in this rate study assume a 9.9 percent increase to the wastewater rate in 2007. As shown in Table D-1, this overall increase assumes no change in the 2006 system rate.

Table D-1
Proposed 2007 Wastewater Rate

| | 2006 | 2007 |
|----------------|--------|--------|
| Treatment Rate | \$4.72 | \$5.39 |
| System Rate | \$2.04 | 2.04 |
| | \$6.76 | 7.43 |
| % Change | | 9.9% |

The change in the SPU treatment rate is required to fund an increase in 2007 treatment expense due to a proposed 10.7 percent increase in the King County treatment rate. Table D-2 presents the inputs underlying the calculation of the 2007 treatment rate.

Table D-2
2007 SPU Treatment Rate Calculation
(\$1,000's)

| | |
|--|---------|
| 2007 Treatment Expense (rates based) (1) | 98,546 |
| Revenue lags/leads (2) | 1,100 |
| Net Cash Treatment Expense | 99,646 |
| Multiplier (3) | 16.7% |
| Total Treatment Expense | 116,286 |
| Projected 2007 Volumes (100 ccf) | 21,590 |
| Treatment Rate per ccf (4) | 5.39 |

Table D-2 Notes:

- 1) Excludes high strength industrial surcharge component of King County treatment expense. This expense is charged directly to the applicable customers and not recovered through rates.
- 2) December revenues collected in January. When there is a rate increase, assumes one month cash at old rate, 11 months at new rate.
- 3) Recovers taxes and revenue lost to credits/non payment.
- 4) Per resolution, treatment rate equals treatment expense divided by projected volumes.

The SPU treatment rate calculation assumes an increase in the treatment multiplier from 16.5 percent to 16.7 percent. The 16.5 percent multiplier assumed that SPU could deduct wastewater revenue collected from other municipal departments from the tax base used to calculate City B&O taxes. Although the City has historically allowed municipal deductions, it recently clarified that no legislative mandate exists for this deduction and that it will no longer allow this deduction, effective January of 2006. A 0.2 percent increase in the tax multiplier will fund the additional taxes which must now be paid on municipal wastewater revenues.

The current proposal assumes an increase of \$3.6 million in 2007 wastewater system expense. The components of that increase are presented in Table D-3.

Table D-3
2007 Change in Wastewater System Expense
(\$1,000's)

| | |
|------------------------|-------|
| Base O&M (1) | (5) |
| Proposed Adds | 1,324 |
| Debt Service | 1,366 |
| Cash to CIP (2) | 867 |
| Total Expense Increase | 3,551 |

Table D-3 Notes:

- 1) \$0.9 million inflationary increase and reduction in G&A credit due to smaller CIP nearly offset \$1 million expense decrease (cost allocation from wastewater to drainage).
- 2) Increase required to meet 25 percent cash financing target.



STATE OF WASHINGTON – KING COUNTY

--SS.

205041
CITY OF SEATTLE, CLERKS OFFICE

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

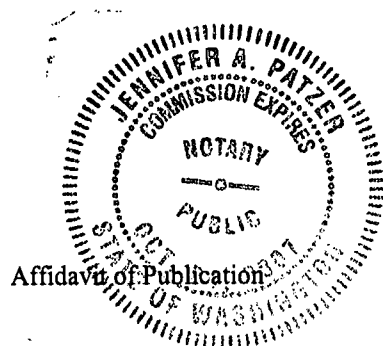
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:122281 ORDINANCE

was published on

12/04/06

The amount of the fee charged for the foregoing publication is the sum of \$ 220.80, which amount has been paid in full.



Subscribed and sworn to before me on
12/04/06

Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

ORDINANCE 122281

AN ORDINANCE relating to drainage services of Seattle Public Utilities; amending Seattle Municipal Code Section 21.33.030 to adjust drainage rates; and amending Seattle Municipal Code Section 21.76.040 to adjust credits to low-income drainage customers accordingly.

WHEREAS, the rates for drainage services were last increased on January 1, 2006, as authorized by Ordinance 121638; and

WHEREAS, Seattle Public Utilities ("SPU") has developed a Comprehensive Drainage Plan ("CDP") which recommends operating programs and capital projects to reduce flooding, improve water quality, improve drainage along major arterials, and restore creek habitat affected by stormwater draining through creek systems; and

WHEREAS, the cost to implement CDP-recommended programs and projects in 2007 will result in increased annual expenses for debt service, cash financing of capital projects and operations; and

WHEREAS, a significant bond issuance occurred in 2006 to finance a portion of the drainage capital improvement projects and that this issuance will further increase annual drainage expenses for debt service beginning in 2007; and

WHEREAS, SPU has completed a rate study showing that existing rates will not provide sufficient revenues to pay the costs of providing drainage services and pay debt service and that rate increases therefore are required; and

WHEREAS, credits for qualified low-income customers need to be revised to reflect an increase in drainage rates; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Subsection D of Seattle Municipal Code Section 21.33.030 is amended as follows:

SMC 21.33.030 Drainage service charges--Schedule--Exemptions.

D. The rate categories and the corresponding annual drainage service charges are as follows:

((Effective)) -- ((Effective)) -- Effective - Effective

((Jan. 1, 2004)) -- ((Jan. 1, 2006)) -- Jan. 1, 2006 -- Jan. 1, 2007

Single-family residential -- ((~~\$10.86~~ per parcel)) -- ((~~\$121.64~~ per parcel)) -- \$136.10 per parcel -- ~~\$142.00 per parcel~~

Open space (0 -- 2%) -- ((~~11.88~~ per acre)) -- ((~~100.88~~ per acre)) -- 173.77 per acre -- ~~187.31 per acre~~

All Other Properties Classification:

1. (0 -- 15%) -- ((~~104.64~~ per acre)) -- ((~~824.48~~ per acre)) -- \$302.19 per acre -- ~~\$325.48 per acre~~

2. (16 -- 35%) -- ((~~822.60~~ per acre)) -- ((~~404.02~~ per acre)) -- 501.84 per acre -- ~~539.42 per acre~~

3. (36 -- 65%) -- ((~~681.47~~ per acre)) -- ((~~730.80~~ per acre)) -- 808.01 per acre -- ~~878.87 per acre~~

4. (66 -- 85%) -- ((~~768.06~~ per acre)) -- ((~~858.02~~ per acre)) -- 1,183.78 per acre -- ~~1,275.27 per acre~~

5. (86 -- 100%) -- ((~~844.42~~ per acre)) -- ((~~1,182.80~~ per acre)) -- 1,468.73 per acre -- ~~1,584.92 per acre~~

SPU shall provide a 10% reduction in drainage rates for properties containing new or remodeled commercial buildings that, after July 27, 2003, install and utilize rainwater harvesting systems that meet the performance requirement that the systems are sized to use or infiltrate the amount of rain that falls on the roofs of such buildings during a one year, ((84-hour)) 24-hour storm event. A system that involves indoor uses of rainwater must be permitted by Seattle-King County Department of Health ((in order)) to qualify for the rate reduction. A system that relies solely on the capture and indoor use of rainwater shall qualify for the drainage rate reduction only if the system is sized to meet the performance requirement stated above. Qualifying for the drainage rate reduction does not relieve the property owner from the obligation to comply with applicable stormwater and drainage code requirements for the buildings and site.

Section 2. Paragraph 2 of Subsection A of Seattle Municipal Code 21.76.040 is amended as follows:

21.76.040 Utility low income rate assistance.

2. Drainage. Eligible recipients residing inside the City of Seattle shall receive the following credits for drainage services based on dwelling type:

((Effective)) -- ((Effective)) -- Effective - Effective

((January 1, 2004)) -- ((January 1, 2006)) -- January 1, 2006 -- January 1, 2007

Single-family -- ((~~\$4.60~~ per month)) -- ((~~\$5.07~~ per month)) -- \$5.87 per month -- ~~\$5.92 per month~~

Duplex -- ((~~8.80~~ per month)) -- ((~~8.54~~ per month)) -- 2.84 per month -- ~~2.89 per month~~

Multifamily -- ((~~6.40~~ per month)) -- ((~~6.64~~ per month)) -- 0.61 per month -- ~~0.64 per month~~

Section 3. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, then such provision or provisions shall be null and severed from the rest of this ordinance with respect to the particular person or circumstance. The offending provision with respect to all other persons and all other circumstances, as well as all other provisions of this ordinance, shall remain valid and enforceable.

Section 4. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 20th day of November, 2006, and signed by me in open session in authentication of its passage this 20th day of November, 2006.

Nick Licata

President of the City Council

Approved by me this 22nd day of November, 2006.

Gregory J. Nickels, Mayor

Filed by me this 22nd day of November, 2006.

(Seal) Judith Pippin

City Clerk

Publication ordered by JUDITH PIPPIN, City Clerk

Date of publication in the Seattle Daily Journal of Commerce, December 4, 2006.

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